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## LCBO Annual Report

1995-1996

# Our *best* year *ever*

CANADA'S MOST  
PROFITABLE COMPANY -

*Financial Post Magazine*





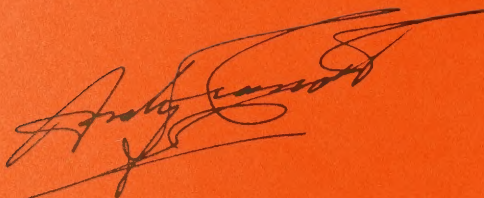
## Letter of Transmittal

The Hon. David H. Tsubouchi,  
Minister of Consumer and  
Commercial Relations

Dear Minister,

I have the honour to present to you  
the 1995-96 Annual Report of  
the Liquor Control Board of Ontario.

Respectfully submitted,



Andrew S. Brandt  
*Chair and CEO*

## Our Mission Statement:

"As a government enterprise, the LCBO  
will be a customer-focused and profitable  
retailer of beverage alcohol, a leader in  
promoting social responsibility in its use,  
and an impartial and objective regulator  
of the beverage alcohol industry."

## LCBO Board of Directors

**During Fiscal 1995-96**

Andrew S. Brandt  
*Chair and Chief Executive Officer*

Chantal Haas  
*Vice-Chair*

Rajula Atherton  
*Director; Chair, Audit Committee*

Orrin O. Benn  
*Director; Member, Audit Committee*

M. Sharon Broderick  
*Director*

Gerald J. Charney  
*Director*

Vernon C. Parrington  
*Director; Member, Audit Committee*

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Larry C. Gee  
*Executive Vice President*

The LCBO wishes to thank the Office of  
the Provincial Auditor for its assistance  
in the preparation of this document.

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Stock content:  
20% post-consumer recycled fibre



# The LCBO *at a glance*

THE LIQUOR CONTROL BOARD OF ONTARIO REGULATES THE PRODUCTION, IMPORTATION, DISTRIBUTION AND SALE OF ALCOHOLIC BEVERAGES IN ONTARIO.

The LCBO is the largest single purchaser of beverage alcohol in the world, buying wine, spirits and beer from more than 60 countries for Ontario consumers and licensees.

To provide this service, the LCBO operates five regional warehouses that supply 596 stores across Ontario. Through this integrated distribution and retailing network, nearly 5,000 products are available to consumers either by direct purchase or by special order. Customers can also obtain thousands more products not regularly listed in Ontario through the LCBO Private Stock ordering program.

The LCBO also operates four stand-alone Vintages outlets, which offer consumers a wide selection of premium wines, spirits and beers. Vintages products are also available in six Vintages boutiques and special sections of 135 regular LCBO stores. They can also be ordered through any LCBO outlet. More than 500 additional premium products can be ordered from each edition of the *Vintages Classics Catalogue*.

In partnership with the LCBO, established retailers operate 86 agency stores in communities without large enough population bases to support regular LCBO stores.

For air travellers, the LCBO operates two duty-free stores at Terminals 1 and 2 at Pearson International Airport.

The LCBO also regulates the sale of products through 436 Brewers Retail stores, 28 on-site brewery stores, 330 winery stores, two distillery stores, 11 land border-point duty-free stores, and duty-free operations at Pearson International Terminal 3 and at Ottawa International Airport.

In the interests of consumer protection, the LCBO conducts approximately 180,000 tests on 9,200 different alcoholic beverages each year. This Quality Assurance testing ensures that all products sold by the LCBO, Ontario winery stores and Brewers Retail stores comply with the federal *Food and Drug Act*, as well as the LCBO's high standards for quality and taste.

FOR FURTHER INFORMATION ABOUT LCBO PRODUCTS AND SERVICES, CALL THE LCBO TOLL-FREE INFOLINE AT 1-800-ONT-LCBO (668-5226). IN METROPOLITAN TORONTO, CALL (416) 365-5900 OR VISIT THE LCBO'S TWO INTERNET SITES: <http://www.lcbo.com> (OUR CORPORATE HOME PAGE), AND <http://www.vintages.com> (THE VINTAGES WEBSITE). ●



# LCBO

## *Board of Directors,*

### 1995-1996

THE DIRECTORS OF THE LCBO, LIKE THOSE OF OTHER PROVINCIAL GOVERNMENT AGENCIES, BOARDS AND COMMISSIONS, ARE APPOINTED BY THE SITTING GOVERNMENT THROUGH ORDER-IN-COUNCIL. APPOINTMENTS, USUALLY FOR A THREE-YEAR PERIOD, ARE SOMETIMES RENEWED.

ANDREW S. BRANDT: APPOINTED CHAIR AND CHIEF EXECUTIVE OFFICER FEBRUARY 6, 1991.



Now in his second three-year term as both Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in both the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations.

CHANTAL HAAS: APPOINTED VICE-CHAIR MAY 15, 1995.



Ms. Haas owns and operates a successful Toronto-based multilingual human resources organization, Bilingual Plus Inc., which specializes in French, English, Spanish and Japanese placements. In addition to leading her business, she participates actively in Toronto's French community. Ms. Haas has been a two-term president of Le Cercle canadien de Toronto. She is a member of the Board of Directors of the French Chamber of Commerce (Ontario) and Vice-President of Public Relations for Women Entrepreneurs of Canada. Ms. Haas is also a National Board Director with the Association of Professional Placement Agencies & Consultants and is an active member of the Employment & Staffing Services Association of Canada. She has inspired many young women entrepreneurs through her extensive involvement with the Step Ahead and Step-Up mentoring programs.



**RAJULA ATHERTON: APPOINTED OCTOBER 7, 1994.**



Mrs. Atherton brings to the LCBO wide experience in increasingly responsible finance and administration positions with the Government of Ontario, including the Addiction Research Foundation, from 1972 until 1988. In 1988 she left the government to become a partner, with her husband, in a public accounting firm, Atherton and Atherton, and in a grape-farming operation, Atherton Vineyards. Mrs. Atherton has also designed organizational strategies to provide culturally appropriate client services and employment equity. She is active in community services such as the United Way and the Women's Rural Economic Development Organization.

**ORRIN O. BENN: APPOINTED SEPTEMBER 8, 1994.**



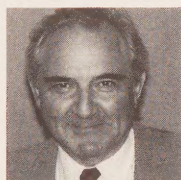
Mr. Benn has many years of experience in marketing management positions in packaged goods companies, mostly with Heublein Incorporated, where he rose to be Director of Marketing of the International Beverage Group. Just prior to joining the LCBO Board, Mr. Benn was a Member, Board of Governors, Exhibition Place, where he was Chair of the Audit Committee. He currently teaches international trade and marketing at Seneca College.

**M. SHARON BRODERICK: APPOINTED DECEMBER 12, 1991.**



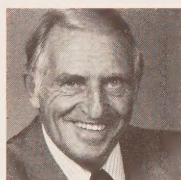
Now in her second term on the LCBO Board, Ms. Broderick is a member of the Faculty of Business at Brock University in St. Catharines, where she teaches Marketing, Consumer Behaviour and Communications Studies courses. She also serves as a member of the Board of Governors of the St. Catharines General Hospital.

**GERALD J. CHARNEY: APPOINTED MAY 4, 1995.**



A full-time labour arbitrator with more than 30 years of experience in labour law, Mr. Charney has his own firm, Charney Arbitrations, and is also Vice-Chair of the Crown Employees Grievance Settlement Board. He has served as a facilitator/mediator on behalf of the Ontario government in the restructuring of Algoma Steel, the Algoma Central Railway and Spruce Falls Lumber. As a long-time wine collector, Mr. Charney has a special interest in the merchandising of beverage alcohol and in increasing consumer knowledge about these products.

**VERNON C. PARRINGTON: APPOINTED SEPTEMBER 8, 1994.**



Mr. Parrington brings to the LCBO Board the experience of a 30-year career in labour relations and workplace technology, mostly in the automotive and aerospace industries. Until his retirement in 1990, he served in a number of positions in the United Auto Workers, including Assistant to the Vice President and, later, the Canadian Auto Workers, where he finished his career as Director of the Skilled Trades Department. He has handled grievances at all levels, sat on arbitration panels, mediated disputes, and helped develop and upgrade apprenticeship and training programs for workers on behalf of the provincial Skilled Trade Advisory Boards. Mr. Parrington is now on the board of Teranet, which oversees all land registrations and titles in Ontario. ●





LCBO

THIS YEAR'S \$680  
MILLION TRANSFER TO  
GOVERNMENT WAS A RECORD  
- AND WE'VE RAISED THE  
BAR TO \$685 MILLION  
FOR 1996-97.



# A record-breaking year

AT 11 A.M. ON MARCH 28, 1996, LCBO TREASURER ELSPETH GAUKRODGER TOUCHED ONE KEY ON HER COMPUTER – AND HISTORY WAS MADE.

She transferred \$10 million to the Government of Ontario's Consolidated Revenue Fund, bringing the LCBO's total transfer for the 1995-96 fiscal year to \$680 million.

That's the largest single one-year transfer ever, surpassing the previous record of fiscal 1991-92 by \$5 million.

It is also a \$50 million increase over the previous fiscal year, and \$95 million more than in fiscal 1993-94.

*(This figure solely represents profits from sales; it does not include the \$183 million in Provincial Sales Tax sent to the Government by the LCBO during the fiscal year. The total payment of \$863 million represents the largest single revenue source for the Ontario Government.)*

The LCBO was Canada's *most* profitable company of 1995, according to the *Financial Post*.

In the influential business magazine's rankings of the nation's top 500 companies, the LCBO placed *first* in profits with a margin of 35.6 per cent, based on the LCBO's 1994-95 fiscal year.

The LCBO also ranked *second* in return on invested capital, *third* in return on shareholders' equity, and *seventh* in net income.

What's more, the LCBO outperformed all other Canadian liquor jurisdictions. Our net sales were up 5.5 per cent in fiscal 1995-96. By comparison, sales in many other provincial liquor jurisdictions were flat.

## BUCKING THE TREND

The LCBO's increased sales and record-breaking transfers come at a time when the proportion of income Canadians spend on beverage alcohol continues to decline: from a little over five per cent of the average household budget in 1981 to about three per cent in 1994 (the most recent Statistics Canada figures available).

Health Canada confirms the change in Canadian drinking habits: only 72.3 per cent of those surveyed in 1995 described themselves as "current drinkers," compared with 77.7 per cent in 1989; Ontario reported the greatest drop, from 77.6 per cent to 69.4 per cent.

The decrease in alcohol consumption is tied in part to the aging population – people tend to drink less as they get older – as well as to increased moderation, as society rejects drinking and driving and other forms of alcohol abuse.

Wearing our regulatory and social responsibility hats, we naturally support the responsible use of the products we sell. But wearing our retail hat, we must work hard to optimize the amount of money we turn over to the province.

### DID YOU KNOW...

OUR NET SALES  
INCREASED OF  
5.5 PER CENT IN  
FISCAL 1995-96  
OUTPERFORMED  
ALL OTHER  
CANADIAN LIQUOR  
JURISDICTIONS.

“Great service, very pleasant personnel.  
Attractive displays. Excellent variety. A-1!”

SUGGESTION CARD FROM I. BRUNET, WAWA.

### IMAGE AND REALITY

Today the LCBO is in a minority position when it comes to the sale of beverage alcohol in the province. We currently account for less than 40 per cent of the roughly \$5.6 billion annual beverage market in Ontario. The rest is sold by Brewers Retail Incorporated (BRI) stores (37 per cent), winery stores (two per cent), U-brews and other legal channels (eight per cent), and the illegal market (estimated 14 per cent).

So, the reality is a little different from the image of the LCBO still held by many people. We aren't a monopoly, except for spirits, a product category that is only recently showing signs of recovery after many years of steadily declining sales; we have lots of competition, both legal and illegal. We aren't recession proof: our sales, like those of many other major retailers, are affected by swings in consumer confidence and the availability of disposable income.

The LCBO has faced these realities and overcome many challenges to achieve this year's outstanding financial performance. We're not just surviving in the more complex and competitive nineties – we're thriving.

As the analysis on page 35 explains, in fiscal 1995-96 we not only continued to increase the *value* of our sales by 5.5 per cent; for the second year in a row, we posted increases in sales *volume*. The total number of litres sold grew by nearly seven per cent, with all three major product categories showing significant gains. Our wine business was up 4.2 per cent, the second consecutive year of growth after volume declines during the six previous years. LCBO beer sales continued their pace-setting double-digit growth – up 11.5 per cent over the previous year. Most encouraging was the 3.3 per cent gain in spirit sales – the first volume increase in this battered but vital category in seven years.

### THE STORY BEHIND THE SUCCESS

Now, none of this just happened. In fact, the effort behind this year's performance really started in 1987. That's when we decided to refocus the mandate of the LCBO: what had traditionally been a control-oriented distributor would become a customer-focused retailer.

New senior managers with extensive experience in retailing were brought in and the transformation began. A comment made at the time was that changing the LCBO would be like trying to turn around an ocean liner.

Fast forward to 1996: the 69-year-old ship has not only turned, it is sailing in the right direction, with many of the same senior managers who charted the course still at the helm. By introducing a number of retailing initiatives, while simultaneously containing its operating costs, the LCBO has achieved a level of profitability unmatched in Canada.

### COMBINED EFFORTS ON MANY FRONTS

The modern, clean and appealing shopping environments we've created in our 596 stores are one key factor in the LCBO's success. But many retailers whose sales weren't satisfactory in fiscal 1995-96 also have attractive stores. There's more to our banner year: exciting and imaginative marketing and merchandising programs; a broad array of customer services based on consumer research; extensive and intensive staff training in product knowledge and in relating to customers. Our combined efforts on all these fronts have helped the LCBO live up to its mandate to be “a customer-focused and profitable retailer of beverage alcohol....”



Guided by market research, we've upgraded and relocated a number of our stores, and where we've renovated, added refrigeration or expanded services and selection, we've seen increased sales and a healthy payback on our investment. Tailoring different store formats to the requirements of individual communities has proven equally successful, and an important part of the LCBO's overall strategy in controlling expenses.

Another major reason for the LCBO's retail success in 1995-96 was its *Shop the World* integrated merchandising program. Launched during the previous fiscal year, the program highlights the LCBO's international product selection. *Shop the World* came into its own in fiscal 1995-96 with four "world events": *Taste the World of Beer* in May/June, *Shake it Up!* in June/July, *Olé* in July/August and *The Wines of Ontario* in October/November.

These theme promotions have been enthusiastically received by our customers. And in each case, the featured products have enjoyed greatly increased sales. (For details see page 26.)

The LCBO began offering credit and debit cards at selected stores in mid-1994. By the fall of 1995, these payment options were available in all our stores. This added convenience also contributed to the LCBO's strong sales performance.

The first-ever opening on a Sunday, December 24, helped boost LCBO net sales during the crucial holiday period by 5.4 per cent over December 1994, representing an additional \$5 million in profits.

Then there's the contribution of our retail training programs – many of them jointly presented by our suppliers and industry trade groups. It's no coincidence that following the introduction of our *That's the Spirit!* product knowledge and customer service training program, sales of total distilled spirits increased for the first time since 1989.

But the bottom line isn't the only measure of success at the LCBO. Equally important is our ability to help protect the health and safety of all Ontarians. Here again, 1995-96 was a good year. Both the number of challenges and refusals at our stores were up considerably over the previous year. (For details see page 29.)

#### WHAT THE PUBLIC THINKS

Our efforts to better serve the public have not gone unnoticed. We know from our extensive customer research that the public likes and values what the LCBO is doing. The vast majority of the letters, faxes, E-mail messages and phone calls we receive is also complimentary. The same is true of the many suggestion cards customers fill out at our stores.

Public opinion polls show that more people than ever think we're doing a pretty good job – that we are both profitable and socially responsible.

The LCBO has also received nearly 40 awards since 1990, many won by Retail Store Development and Corporate Communications for excellence in their fields. Almost all of these honours have been achieved through competitions, many of them open to both the public and private sectors, some international in scope.

When one looks at these awards, at the record transfer payment, our performance compared to other liquor jurisdictions, our *Financial Post* rankings, our standing with the public, our successes in modernizing, our ability to implement our strategic plan in a complex and changing marketplace, one can see why we believe we can compete with the best.

One can see why fiscal 1995-96 was in many ways the *best* of times.





"Your selection is the best in the world."

SUGGESTION CARD FROM M. KUHN, WATERLOO.

### RETAILING IN A "FISHBOWL"

While the provincial government's planned modernization review of beverage alcohol retailing and distribution was not initiated during the first year of its mandate, the issue was frequently debated in the media and elsewhere: when would the review commission be appointed? what options would be considered, and what would be their impact on selection, prices, public health and safety? what has been the impact of privatization in Alberta?

This debate was kept in the public eye, at least in part, by a high-profile advertising campaign by the Ontario Liquor Boards Employees' Union (OLBEU) and by union efforts to get municipal councils to pass anti-privatization resolutions.

While the debate has been extensive, like the review process itself, it is far from over. In fact, by year's end both were still taking shape.

An important announcement came in May of 1996, during the government's first budget statement, when Finance Minister Ernie Eves announced plans to establish a special Cabinet Committee on Privatization, which he would chair.

This is another step in a process which, according to the government itself, will be open and consultative, with ample opportunity for all interested parties, including the LCBO and its employees, to contribute ideas and opinions on how to continue to modernize beverage alcohol retailing in Ontario.

The government understands the need to strike a balance between social responsibility and profitability, as the LCBO has done in the past.

It also recognizes that any significant change to the LCBO retail and distribution system would have a major impact not only on Ontario wineries and their stores, but also the distillers and the brewers, particularly Labatt and Molson who, along with Sleeman, own the Brewers Retail store network.

In short, it is a complex issue, with far-reaching implications.

At the LCBO we look forward to being part of the review process, and to working with all stakeholders to develop a "made in Ontario" plan that meets both the government's and the public's goals and expectations. We have a number of sound ideas which we believe could make the LCBO even more effective, profitable and responsive to Ontario's beverage alcohol consumers, while continuing to protect the interests and safety of the public.

### OPERATIONAL AGENCY REVIEW

While the modernization review was still pending, the LCBO was included in another review process. As part of its overall deficit reduction strategy, the government initiated reviews of its 75 operational agencies, including the LCBO. This Operational Agency Review (OAR) process was announced in the Fall 1995 Economic Statement. The LCBO's OAR was undertaken early in 1996 by staff from Management Board of Cabinet and other ministries, along with an independent retail consultant, who examined all divisions of the LCBO.

This team compared the LCBO to other modern retailers, drawing on many existing LCBO studies.

Many of the team's recommendations match up well with our own plans for continuing to improve our retail network, in-store merchandising and overall customer service.

We plan on cutting \$41.9 million in spending in the 1996-97 fiscal year, and another \$13.9 million the year after that, in our drive for maximum efficiency and cost-effectiveness.



Working with our suppliers, we plan to reduce our investment in warehouse and store inventory by about \$30 million, while still keeping our stores adequately stocked through supply-chain improvements and expansion of our consignment program.

The Bottling and Processing Plant now operating in the Toronto Warehouse will be shut down as a cost-saving measure. This is expected to be completed by September of 1996, when existing bulk inventories will be exhausted.

I HAVE SEEN THAT CHANGE CAN AND DOES CREATE ALL KINDS OF NEW POSSIBILITIES FOR THE LCBO, ITS EMPLOYEES AND ITS CUSTOMERS. I HAVE ALSO SEEN THAT INVESTMENTS IN THE LCBO STORE NETWORK, IN TECHNOLOGY AND IN STAFF TRAINING ARE BOTH PROFITABLE AND BENEFICIAL. I BELIEVE TODAY'S LCBO IS A VALUABLE AND VALUED PUBLIC ASSET.

Head office administrative activities are being reviewed, to increase efficiencies and reduce costs by \$8 million over two years. We have reduced our capital budget by more than \$12 million over two fiscal years. Retail and distribution activities are also being examined to identify additional productivity gains and savings. The latter will be made easier by the recent signing of a new, more flexible two-year collective bargaining agreement between the LCBO and the Ontario Liquor Boards Employees' Union.

#### OUR COMMITMENT TO EXCELLENCE

The LCBO is committed to achieving savings without cutting the high level of service our customers expect from us. We will also ensure any changes do not reduce our ability to generate revenue for the government and people of Ontario in a socially responsible manner.

Prior to the Operational Agency Review, we had established three benchmarking programs, examining administration, customer service and supply-chain management (the process of getting products to our store shelves). These internally-driven reviews will help us become even more efficient, cost-effective and customer-focused. In addition to reducing our costs, they will help us achieve our transfer target of \$685 million for fiscal 1996-97.

I have been LCBO Chair and Chief Executive Officer for more than five years. In this time, I've come to respect, appreciate and value the ability of LCBO employees to meet a challenge; to take full advantage of an opportunity; to be flexible and responsive to changing events, circumstances and marketplace trends.

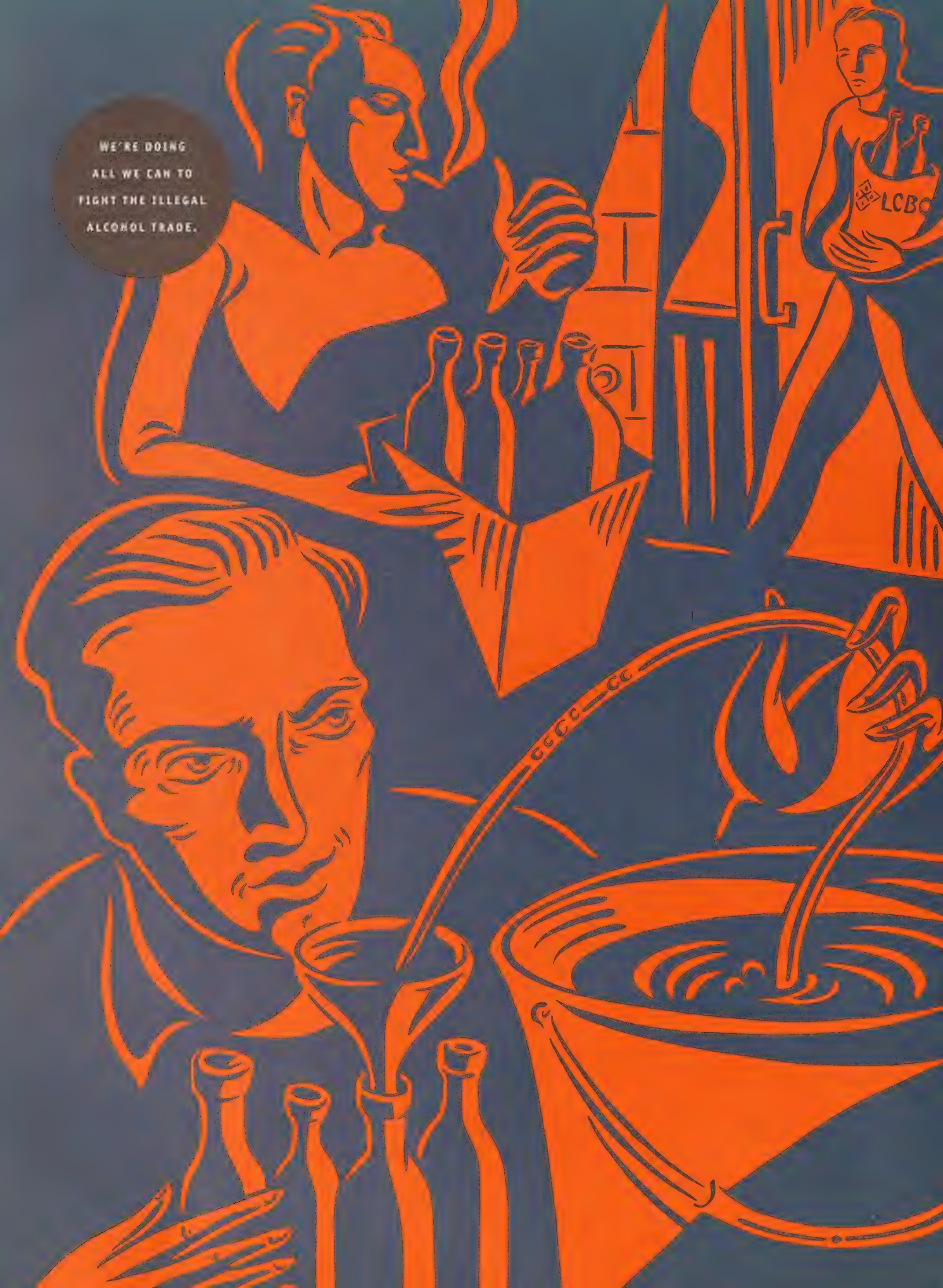
I have seen that change can and does create all kinds of new possibilities for the LCBO, its employees and its customers. I have also seen that investments in the LCBO store network, in technology and in staff training are both profitable and beneficial. I believe today's LCBO is a valuable and valued public asset.

With the support of the Board of Directors, management and staff of the LCBO, I will do everything possible to ensure the LCBO continues to be a reliable, cost-effective and socially responsible source of revenue for the Ontario government. Working with government, the OLBEU and our trade partners, the LCBO will continue to create an increasingly positive shopping experience for our customers. ●



ANDREW S. BRANDT,  
CHAIR AND CHIEF EXECUTIVE OFFICER  
JULY, 1996

WE'RE DOING  
ALL WE CAN TO  
FIGHT THE ILLEGAL  
ALCOHOL TRADE.





# Illegal alcohol: *the battle rages on*

## SOME PEOPLE THINK THAT BUYING ILLEGAL ALCOHOL ISN'T REALLY A CRIME.

Bringing back a few extra bottles from the U.S. in the glove compartment. Buying a jug of cheap red wine from the industrial complex in the suburbs. Going to the bar that sells shots at very low prices for “special customers”.

What's the harm in taking advantage of a bargain? It's just a form of tax revolt, isn't it? Who does it hurt?

Well, it isn't that simple. It isn't that innocent. Bootleg booze can and does hurt us all. Illicit alcohol is a well-organized, multi-million dollar business, with a sophisticated underground production, distribution and sales network that reaches into communities throughout Ontario.

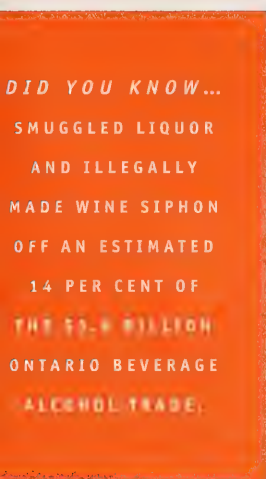
The LCBO estimates that 14 per cent of the \$5.6 billion Ontario beverage alcohol trade is being siphoned off by the black market. That's nearly \$800 million a year – about \$500 million in smuggled liquor and \$300 million in illegally made wine.

If these products were sold through the LCBO, Ontario's Treasury would get approximately \$475 million for hospitals, schools and roads. Instead it goes to smugglers who also deal in drugs, weapons and other contraband. Profits from smuggling and bootlegging often support other, sometimes violent crimes.

## NOT A VICTIMLESS CRIME

Need more evidence that illegal alcohol isn't a victimless crime? Consider these facts:

- Criminals don't pay taxes on their ill-gotten gains. But they do compete with hard-working taxpayers for access to limited public resources and services.
- Smuggling and illegal manufacturing threaten thousands of jobs in the beverage alcohol trade and associated industries such as agriculture, bottling, transportation and warehousing.
- Law-abiding bar and restaurant owners and their employees must compete against others who flout the law and pocket illegal profits from bootleg booze.
- Seized illegal alcohol tested by the LCBO Quality Assurance Laboratory is often found to contain chemical and organic impurities. Bootleg wine is often made, stored and shipped under unsanitary conditions.
- And illegal operators don't care if they sell to underage or intoxicated individuals.



“I want to take this opportunity to acknowledge the support and co-operation our industry has received from the LCBO, particularly over the past year, to drive Ontario wine sales.”

LETTER FROM BRUCE WALKER, CHAIRMAN, ONTARIO WINE COUNCIL.

### AN UPHILL BATTLE

The LCBO is doing all it can to stem the flood of illegal alcohol in Ontario – but it’s a difficult battle for several reasons.

For starters, too many people believe that illegal alcohol is a victimless crime, a view fuelled by high taxation levels on domestic products – 83 per cent for spirits, 66 per cent for beer and 64 per cent for wine. With help from the media, we have clarified this misconception to some degree, but there is still a long way to go.

Secondly, while our investigators have made the law enforcement community more aware of the seriousness of the illegal alcohol problem in Ontario, resources are limited; provincial and municipal police forces cannot always give illegal alcohol the attention it deserves.

Thirdly, the penalties for smuggling and illegal manufacturing were traditionally so light that criminals could simply chalk them up to the cost of doing business. However, with amendments to the *Liquor Licence Act* proclaimed on November 17, 1994, penalties were stiffened considerably. The maximum fine for individuals quadrupled from \$25,000 to \$100,000; the maximum fine for corporations increased from \$100,000 to \$250,000. These tougher fines should act as a greater deterrent to smugglers and illegal manufacturers.

Fourthly, when the market for illegal cigarettes dried up, many smugglers switched to alcohol to replace lost profits.

### A PRODUCTIVE YEAR

Despite these problems, fiscal 1995-96 was very productive for the five-man LCBO investigative unit. They laid a total of 303 charges under the *Liquor Licence Act*, and made 79 seizures worth a total of \$10.5 million – almost matching the tally for the two previous years combined.

But as the investigators themselves point out, enforcement operations don’t always fall neatly into reporting periods – investigations can last well over a year, from the first intelligence report to the arrest of suspects and seizure of goods. The trend to more complex, but ultimately more rewarding investigations is growing, as enforcement agencies focus on shutting down the larger illicit networks.

The Illegal Alcohol Task Force (IATF), founded by the LCBO in 1992 to marshal resources and focus attention on the illegal alcohol problem, has developed a more comprehensive and co-operative approach to finding and arresting criminals who trade in illegal alcohol.

This group, made up of enforcement officers from the RCMP, the OPP, the Ontario Ministry of Finance, Revenue Canada, Canada Customs, as well as the LCBO and Liquor Licence Board, meets regularly to share information and plan strategies. The LCBO also is a member of the Criminal Intelligence Services of Ontario (CISO), which helps our investigators stay on top of the latest developments in crime and crime fighting.

During the year, LCBO investigators were called upon to help train their colleagues in Canada Customs and the RCMP (Cornwall and Kingston detachments) in the identification of illegal spirits. Our investigators also took part in LCBO displays at trade and consumer shows in Toronto, Peterborough and Ottawa, to explain the health and social costs of illegal alcohol.



The Quality Assurance Laboratory did its part by analyzing samples of 1,163 seized products in the 1995 calendar year, to help determine their makeup and origin. (Projections for 1996 suggest this number will at least double.)

### NO MORTAL BLOW

We would like to report that our many seizures and growing number of convictions, our collaborative efforts with law enforcement partners, and our public education efforts have dealt a mortal blow to the illegal trade. But despite some encouraging signs in domestic spirit sales, we're only seizing a fraction of the illicit alcohol that's peddled here; we're only apprehending a handful of the criminals involved.

That's why in February, 1996, our Chair invited then Consumer and Commercial Relations Minister Norman W. Sterling and Deputy Minister Stien K. Lal to visit LCBO Loss Prevention & Security and discuss additional ways the Government of Ontario could help fight the problem.

At Minister Sterling's request, the LCBO has since made a number of recommendations on ways to further combat smuggling and illegal wine manufacturing.

Whatever policies or legislation are eventually adopted, the LCBO will keep working with its police partners to stem the flow of smuggled liquor and illegally made wine. We believe our customers deserve nothing but the best products we can offer – all tested for safety – along with all the customer services that are now part of the LCBO shopping experience.

And we believe that Ontario deserves the revenue from liquor sales – not the organized gangs behind an \$800 million black market. ●

#### DID YOU KNOW...

THE LCBO QUALITY  
ASSURANCE  
LABORATORY  
CONDUCTED 180,000  
TESTS ON 9,200  
DIFFERENT PRODUCTS  
LAST YEAR  
TO ENSURE THEY  
WERE SAFE.  
SAMPLES OF 1,163  
SEIZED PRODUCTS  
WERE ANALYZED  
TO DETERMINE  
THEIR MAKEUP  
AND ORIGIN.



ARTHUR AU, RIGHT,  
MANAGER OF OUR MARKHAM  
MINI-STORE, SERVES  
CUSTOMERS MAY CHU  
AND ANSUN CHEN.



# Changing with the times

YOU DON'T HAVE TO BE VERY OLD TO REMEMBER WHEN LCBO STORES WERE DREARY AND FEATURELESS, WITH HARDLY A BOTTLE IN SIGHT. INSTEAD, YOU MADE YOUR SELECTIONS FROM "PRICE BOARDS" WHERE CODE NUMBERS, BRAND NAMES, SIZES AND PRICES WERE LISTED.

You filled out a form with a dull, stubby pencil, paid a cashier, and waited for a clerk to hunt down the products of your choice.

There was little product information available and equally little customer service. You may have left feeling you had done something not quite respectable, thankful perhaps that the store was on a sidestreet somewhere. You may even have hidden your brown paper bag, not wanting to be seen in public with evidence of your "debauchery." Hardly a pleasant experience.

For its first 40 years, the LCBO was essentially a distribution operation. We bought the products from manufacturers at home and abroad. We put them into stores across the province. We allowed customers to give us their money. And that was about it.

## THE TRANSFORMATION BEGINS

We've come a long way since then. Our first self-service stores appeared in 1969, and by the mid-80s most of the 600-plus stores in our network had made the change. However, displays were limited and there was still very little store ambience or product merchandising and information.

The next big wave of change began in 1987, when we committed ourselves to becoming a different sort of organization. This was partly because the new competitive environment *required* us to change and partly because we *wanted* to change.

Some people are surprised to hear us talk about competition. They wonder how a monopoly like the LCBO can have any competition. The truth is, we haven't been a monopoly for some time. In fact, we sell less than 40 per cent of the beverage alcohol bought by Ontarians. We compete with Brewers Retail Inc.; Ontario winery stores; on-site brewery and distillery stores; and other liquor jurisdictions, such as Quebec, Michigan and New York State. We also have fierce competition from the black market – you can read more about that on page 11.

We knew our future depended on our becoming a modern, customer-focused retailer while maintaining an equal focus on social responsibility. Our customers were becoming more knowledgeable and discriminating; if we wanted to keep pace with the growing competition, we would have to attract them to our stores and satisfy them once they got there.

This meant major changes in our retail practices. Because alcohol can be harmful when used irresponsibly, we couldn't use all the tools private-sector retailers use to increase sales. But there were many things we *could* do to make the LCBO shopping experience much more enjoyable, while encouraging responsible use of our products. So we set out to make ourselves the retailer of *choice* for beverage alcohol in Ontario.

## TAKE A LOOK AT US NOW

Our first focus was on the physical appearance of our stores. We wanted to make them attractive, inviting places to shop, where customers could browse, look at product labels and information and make their own selections. We had already removed the counters that had separated customers and staff and made us seem aloof. But we wanted to go further. We wanted design consistency from store to store, like most quality retail chains, to give a clear and appealing corporate identity to our retail operations.

We came up with a new program called IMAGE, which initially targeted about 100 key stores for upgrades. Some were relocated, some totally renovated; all were designed with barrier-free access, similar layouts, shelving, signage, placement of products and other merchandising features that would make them attractive, pleasant and convenient.

We added refrigerated display cases, wine chillers, customer service desks to provide information, gift certificates, special occasion permits, as well as cheque-cashing and refund/exchange services. And we've introduced a variety of other innovations – many of them in response to customer requests. These were more than cosmetic; they've resulted in better service and greater convenience to our clientele, and more efficient operations.

OUR EFFORTS TO UPGRADE STORES AND MAKE THEM MORE ATTRACTIVE AND CONVENIENT HAVE NOT GONE UNNOTICED. SINCE 1990, WE'VE WON 13 AWARDS FOR STORE DESIGN, ALL IN COMPETITION WITH PRIVATE SECTOR RETAILERS. THIS YEAR ALONE, WE WON SIX AWARDS, INCLUDING A COVETED RETAIL COUNCIL OF CANADA STORE LAYOUT & DESIGN AWARD FOR OUR NEW MANULIFE CENTRE STORE.

Shoppers found the new store environments a refreshing change from the first generation of self-service stores – and light years away from counter stores. Furthermore, we soon found that IMAGE stores generated higher revenues after renovations. This meant an upgrade would quickly pay for itself and the store would then contribute more to our bottom line.

Over time, we selected more stores for IMAGE make-overs; now there are nearly 150. We also developed a Total Store package, a less extensive renovation plan for other stores. Now, almost all have the corporate “stamp” of clean, modern design, consistent displays, and easy-to-read signage.

## A STORE FOR EVERY SITUATION

This updating didn't mean making all our stores exactly the same. We knew it was important for them to meet the needs of the communities and populations they serve – and these vary widely across the province.

We began developing different types of stores to meet differing needs. Along with our regular stores, these include:

- full-service stores, offering 2,500-3,000 products and all LCBO services. So far, we have four: on Queens Quay and in Crossroads Plaza in Toronto, and one each in downtown Kingston and Ottawa;
- mini-stores in high-traffic shopping areas, offering targeted selections of the most popular brands; there are now nine in total;
- 177 combination stores that sell a full variety and size range of domestic beer, as well as regular LCBO stock, in areas where there are no Brewers Retail stores;
- 86 agency stores, operated in partnership with established retailers in communities not large enough to support regular stores;



“... three LCBO stores in the Toronto area – Queens Quay, Crossroads and the new Manulife Centre store have educational programs... real seminars and courses offered by Vintages wine consultants who have grown apace in wine literacy, and more important, enthusiasm.”

DAVID LAWRASON, WINE WRITER, *GLOBE AND MAIL*.

- four Vintages stores, six boutiques and 135 Vintages sections in regular LCBO stores, offering more than 1,500 fine wines, spirits and beers;
- seasonal stores in resort areas with large summer populations; and
- duty-free stores at international airports and land-based border points.

Our efforts to upgrade stores and make them more attractive and convenient have not gone unnoticed. Since 1990, we've won 13 awards for store design, all in competition with private sector retailers. This year alone, we won six awards, including a coveted Retail Council of Canada Store Layout & Design award for our new Manulife Centre store.

With so many different formats, there's no one typical LCBO store anymore. But all have important things in common: products targeted to local tastes and preferences; displays that are both eye-catching and educational; staff who are ready, willing and able to discuss product choices with customers and offer advice when needed; a range of convenient payment options, including credit cards and direct payment; and many more customer services to make your shopping experience convenient and enjoyable.

That's a far cry from the old days... which is just the way we like it. ●

DID YOU KNOW...

IN PARTNERSHIP  
WITH ESTABLISHED  
RETAILERS,  
WE OPERATE 86  
AGENCY STORES  
IN COMMUNITIES  
WITH POPULATIONS  
TOO SMALL TO  
SUPPORT REGULAR  
LCBO STORES.



TONY MACCHIONE,  
OUR PRODUCT  
CONSULTANT IN  
WOODBIDGE, ADVISES  
CONNIE FERRARO.



# Making the (up)grade

IN THE FIRST FOUR WEEKS AFTER THE LCBO'S RELOCATED WOODBRIDGE STORE OPENED IN DECEMBER, 1995, SALES WERE UP 62 PER CENT OVER THE SAME PERIOD THE YEAR BEFORE.

Manager Bob Bayliss wasn't surprised. "We're giving the customers what they want – what they feel they deserve," he said at the time.

What the customers wanted, according to LCBO market studies, was a larger, better located store that would provide improved selection and services to this community just north of Metro Toronto. And they got it. The new store is on Weston Road, a main traffic artery in the heart of Woodbridge's retail district, with 140 per cent more selling space than the store it replaced, 1,000 more brands, a beer cold room, more parking, more cash registers, extended hours, barrier-free access and greater overall visibility. In keeping with the LCBO's commitment to serving niche markets – in this case Woodbridge's large Italian community – the store stocks every Italian red wine, white wine, vermouth, grappa, brandy and cognac carried by the LCBO, and has an Italian-speaking product consultant on staff. Ten other staff members also speak Italian.

When some people saw the 62 per cent sales increase, they doubted the store could continue at that clip. And they were right.

By the end of the fiscal year, the figures had actually *improved*: up 72 per cent for the last quarter of 1995-96, compared to the same period in fiscal 1994-95. Sales rose even higher in the first quarter of 1996-97. And it's not as if this business was siphoned from other LCBO stores. Sales in the local trading area were up 23 per cent at the end of the fiscal year.

Experience has proved time and again that when the LCBO upgrades a store, its sales increase. This holds true whether the store is renovated, relocated, or has a beer cold room added.

At seven stores relocated or renovated in 1995-96, increases during the fiscal year ranged from three per cent to Woodbridge's 72 per cent. Other renovations of note during the fiscal year: Stittsville, near Ottawa, (sales up 24 per cent), Yonge Street in North York (up 21 per cent); LaSalle Boulevard in Sudbury (up 13 per cent); and Toronto's Manulife Centre (up 11 per cent at the end of the fiscal year, and up 30 per cent for the first quarter of 1996-97).

Each project was designed to improve customer service; increase revenue from greater margins, reduced expenses or both; maintain the LCBO's physical assets; and provide barrier-free access. These objectives have all been met.

## IMPROVEMENT COSTS QUICKLY RECOUPED

Surveys conducted by the LCBO and outside agencies consistently show that customers like updated LCBO stores and the products and services they offer. This generally leads to sustained increases in sales, which means costs associated with renovations, upgrades and expansions are quickly recovered.

“Brandt has transformed... the old LCBO stores, making them upbeat and customer-friendly.”

ARTICLE FROM THE NOVEMBER 1995 *FINANCIAL POST* MAGAZINE, NAMING LCBO CHAIR AND CEO ANDREW S. BRANDT ONE OF CANADA'S TOP 200 CEOs.

On average, IMAGE upgrade costs are recouped in under two years; beer cold room additions in under three; and many other major renovations in less than five years. The payback comes from increased sales – and from opportunities created for generating other types of revenue. For example, suppliers now pay for guaranteed end-aisle displays and other higher-profile space in our IMAGE stores.

The sales increases that follow a store upgrade are no temporary phenomenon; in most cases, they continue year after year. And once they've repaid their costs, renovated stores start bringing greater profits to the Government of Ontario, to help pay for important social and capital programs. That's a win for all of us as taxpayers, and for all our customers, since upgrades make the LCBO shopping experience more convenient and enjoyable.

NOT EVERYONE UNDERSTANDS WHY THE LCBO SPENDS MONEY ON CAPITAL IMPROVEMENTS. BUT LIKE OTHER MAJOR RETAILERS, WE HAVE TO SPEND MONEY TO MAKE MONEY. OUR STORES HAVE TO BE WELL DESIGNED, WELL MAINTAINED AND WELL LOCATED, MATCHED TO CUSTOMER REQUIREMENTS AND EXPECTATIONS.

You may wonder what customers do while their stores are closed for renovations, often for several weeks or months. That's something the LCBO thinks of too, and we do everything we can to minimize any inconvenience during renovations. In Etobicoke, for example, we served customers out of a 50-foot trailer store in the parking lot during five weeks of renovation. Since it re-opened in October, 1995, the store's sales have been up 10 per cent over the year before.

Fifteen cold rooms were installed in LCBO combo stores during fiscal 1995-96 (and two others added in renovated or relocated LCBO stores in Sudbury and Stittsville). These walk-in cold rooms bring several advantages to our stores. Most importantly, they give customers a “one-stop-shop” for chilled, ready-to-serve beer. This generates increased customer traffic, which boosts sales not only of beer, but of wine and spirits as well. On average, overall sales in the stores that installed cold rooms this fiscal year were up seven per cent. And because cases of beer are stacked on the floor, ready for pick-up by customers, we reduce handling costs and staff can spend more time serving customers.

### BIG RETURNS FROM MINI-STORES

Not every capital project in 1995-96 was an upgrade of an existing store. We also opened three new mini-stores where no LCBO stores had existed before, and converted stores in Sarnia and Cobalt to mini-formats to match customer traffic patterns. Mini-stores are usually 1,500 to 2,000 square feet – less than half the size of a typical store – located on main streets or in busy malls; they carry 300 to 600 popular brands, compared to the 1,500-2,000 found in most IMAGE stores. Mini-stores may be small in size, but their sales performance has been nothing short of towering.

Consider the Beach. Research told us that people in Toronto's east-end Beach district wanted a store on the busy stretch of Queen Street that runs parallel to the Boardwalk along Lake Ontario. We found a small storefront, renovated it – and since opening in December, 1994, sales per square-foot have rivalled our best stores anywhere. The store has also won several design awards, and been recognized for its community service.



We expect our new mini-stores opened this fiscal year to perform equally well. One is located within a Bay store in downtown Toronto; one is in a well-travelled underground passageway just outside the Yonge-Bloor subway station; and one is in an Asian-theme mall in Markham, designed with the tastes and preferences of the Chinese-Canadian community in mind, and staffed by employees who are equally comfortable serving customers in English, Cantonese or Mandarin.

Like they say, good things come in small packages.

#### MANULIFE A HIT WITH CUSTOMERS – AND OTHER RETAILERS

No story on LCBO store upgrades in 1995-96 would be complete without discussing our new Manulife Centre store on Bloor Street in Toronto, which re-opened after renovations just in time for Christmas. Reconfigured for today's shoppers, male and female, it offers a wealth of information about beverage alcohol, food and ways to combine them. The store and its demonstration kitchen have been a hit with customers – in one recent survey, 92 per cent of people interviewed said they approved of the redesign. As noted previously, sales are up 11 per cent over last year, and growing; its Vintages section is up a resounding 250 per cent. Overall sales in the trading area are up 17 per cent over last year.

The store has also been recognized by the retail community, winning the Retail Council of Canada's 1996 *Excellence in Retailing* award for store design and layout, in the large store category – against competition from the private sector across Canada. Not only is the store expected to pay back its investment in a fairly short time frame – it's a fertile testing ground for retailing concepts that could eventually extend to other LCBO stores.

Total capital spending in fiscal 1995-96 was approximately \$12 million – \$9 million of that for renovations, relocations and other upgrades, such as new display units and signs. Another \$3 million was spent on maintenance. We'll be spending \$7 million on store-related capital improvements in fiscal 1996-97, including mini-store openings in Barrie and Toronto, and relocations/upgrades in Barrie, Mississauga (2), Kanata and Sudbury.

Not everyone understands why the LCBO spends money on capital improvements. But like other major retailers, we have to spend money to make money. Our stores have to be well designed, well maintained and well located, matched to customer requirements and expectations. They should reflect the quality of the products we sell. They should be barrier free, so that customers with disabilities can shop as easily as anyone else. They should have facilities for mechanized unloading, so that our staff can spend less time handling cases and more time serving customers.

In other words, our stores should be everything our customers want them to be, where they want them to be. They should also prove a sound investment, and store upgrades are doing just that. ●





OVER 300,000  
CUSTOMER SURVEYS  
AND INTERVIEWS  
HAVE GUIDED OUR  
MODERNIZATION.

## *Learning from our customers*

LIKE ALL PROGRESSIVE RETAILERS, THE LCBO WANTS TO SERVE ITS CUSTOMERS WELL; TO OFFER THEM THE PERFECT BLEND OF PRODUCTS AND SERVICES; TO HAVE THEM LEAVE OUR STORES FEELING GOOD ABOUT THEIR SHOPPING EXPERIENCE AND LOOKING FORWARD TO THEIR NEXT VISIT.

This wish list has driven the transformation of the LCBO from distribution-oriented bureaucracy to customer-focused retailer. Since 1987, our Marketing Research department has been providing management with the answers to their most pressing questions: What do today's LCBO customers want, and how can we better serve them?

To find out, Marketing Research has conducted more than 100,000 personal interviews with customers; another 280,000 have completed surveys in our stores.

These interviews and questionnaires have yielded a priceless lode of information that has helped us make the right management decisions – to work smarter and more efficiently, and improve the way we serve our customers.



TWO TYPES OF LCBO SHOPPERS

Our researchers have identified at least two primary types of LCBO shoppers, both of whom we work hard to satisfy. Some know exactly what they want to buy and want to get in and out quickly. But many others have told us they want entertainment and information as well as convenience. They want to browse, to learn, to sample, to discuss.

We've developed store layouts and merchandising strategies that suit both types of customers. Our wide aisles, bold signage and consistent product displays help those in a hurry find their product of choice; plenty of checkout counters and cashiers ensure they can pay for it just as quickly. For the browsers, we offer in-store tastings and tasting notes, recipes and other informative displays and literature, food-matching demonstrations and special events. These include our *Shop the World* theme promotions, which combine most of these elements, along with music and in-store contests, to create a fun, dynamic shopping experience.

Merchandising and store-design improvements aren't the only changes that have taken place at the LCBO over the last decade. Consider the changes in our employees. Not too long ago, our corporate culture dissuaded staff from recommending one product over another. Customers were pretty much on their own when it came to choosing products.

But customers told us they wanted more assistance and advice. And we responded, launching training programs like Product Knowledge, That's the Spirit! and Customer Service Excellence to improve staff knowledge of the products we sell and the skills needed to pass that knowledge on to customers. Has it worked? Our 1995 Customer Traffic Study shows that customers now give "staff friendliness" a mean score of 9.1 out of 10 – the highest-rated aspect of the LCBO shopping experience, along with "overall satisfaction with visit" (see chart, left).

IDENTIFYING NICHE MARKETS

Marketing Research has helped the LCBO identify and better serve specific niche markets, by providing demographic information about our changing customer base. We've learned more about the Chinese-Canadian community, for example, the products they enjoy and the in-store services they appreciate and, with the input of our Ethnic Marketing Council, developed a unique mini-store in an Asian-theme mall in Markham. Research is now helping us to tailor our product mix and services to suit the tastes and preferences of Ontario's Caribbean community, as well as other cultural and ethnic groups. Our ability to understand – and meet – the expectations of our female shoppers has also been greatly enhanced by research and consultation with our Women's Marketing Council.

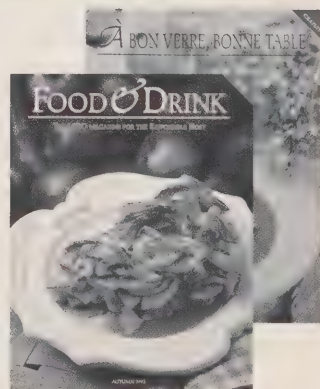
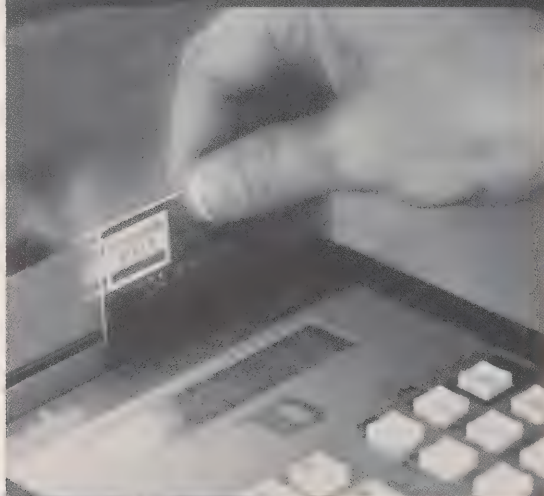
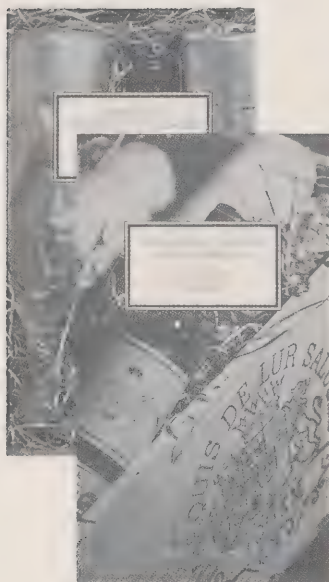
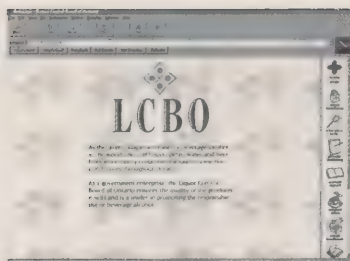
For nearly a decade now, the LCBO has been taking the pulse of Ontarians, listening and learning from them, using this information to buy products and develop new programs and services to address their requirements and expectations. They've told us they wanted wine tastings, product information, credit card and direct payment options, longer hours of service, limited time offers and value-adds – and we've delivered.

We've come a long way at a relatively fast pace, but we're not resting on our laurels. We're working hard every day to be more competitive, to offer you the variety and value, the products and services, we *know* you want. ●

LCBO stores were rated out of 10 on the following criteria:

Staff friendliness	9.1
Staff knowledge	8.8
Overall store ambience	8.8
Ease of finding what you wanted	8.6
Product selection	8.5
Overall satisfaction with visit	9.1

Source:  
LCBO 1995 Customer  
Traffic Study.  
Sample size: 1,224



TODAY'S LCBO:  
PROVIDING THE SERVICES  
AND INFORMATION YOU'VE  
TOLD US YOU WANT.



# At your service

ATTRACTIVE STORES AND EXTENSIVE PRODUCT SELECTION ARE PART OF WHAT MAKES A GOOD RETAILER – BUT THERE’S MORE TO IT THAN THAT. YOU ALSO NEED THE SERVICES PEOPLE WANT.

For some time, LCBO customers had wanted the option of paying by credit card. In 1994, the Government of Ontario approved our request to offer this customer convenience, and in 1995-96, we completed the installation of stand-alone credit and direct payment technology in all stores. Customers can now pay however they choose: credit card, direct payment card, cheque or that old standby – cash. This fiscal year, we recorded 6.2 million credit card transactions and five million direct payment transactions. Next fiscal year, direct payment transactions will likely outnumber credit card transactions, based on trends observed in the last half of 1995-96.

Everyone likes a bargain, no matter what the product. And with Limited Time Offers (LTOs), they can find outstanding values in all our stores. LTOs provide temporary price decreases of up to 20 per cent on about 40 products every four-week sales period. In 1995-96, a total of 422 products were discounted. Some customers use LTOs to buy familiar brands at a lower price. Others take advantage of LTO discounts to try new or premium-priced products. Either way, they get more for their money.

Value-adds also offer customers more. Value-adds are bonus items that suppliers attach to a given product – a miniature sample of a premium product, for example, or an accessory, like a glass or corkscrew. Sometimes the packaging itself can be considered a value-add, especially if it’s an attractive reusable container. More than 500 value-adds were featured in 1995-96.

People in some communities wanted longer hours of service at their LCBO store, and we’ve responded. Rather than closing at 6:00 p.m., as virtually all stores did not too long ago, many now stay open until 9:00, 10:00 or 11:00 p.m., to accommodate people who work different shifts, or can’t shop earlier for other reasons. As long as municipalities support our plans, we’ll do what we can to make the LCBO even more convenient and accessible.

Another example of this was our first-ever Sunday opening, on December 24, 1995. Because Christmas Eve fell on a Sunday, our stores would have been closed three days in a row had we not opened that day. That didn’t seem fair to our customers, so with government support, we opened most stores from 11:00 a.m. to 6:00 p.m., and enjoyed brisk sales, netting about \$5 million. With our extensive line of special holiday items, and gift-wrap service in many stores, we’re now seen as a convenient source of great gift ideas at Christmas time – in fact, year round.

## CATALOGUE SALES RISING

Vintages – the LCBO’s premium products division – operates four stand-alone stores, six boutiques, and sections in 135 regular stores. Vintages continued its robust growth this year, increasing its sales by more than 27 per cent over last year.

Contributing to that increase was Vintages’ popular *Classics Catalogue*, first introduced in 1994. The third and fourth editions, published this fiscal year, each listed around 550 special and rare products not carried in our stores – either because of limited shelf space or because they must be stored under climate-controlled conditions. These products are of great interest to connoisseurs and collectors who, in the past, would

likely have sought them outside Ontario. The catalogue can be accessed in all LCBO stores, by phone or fax, or even on the Internet (<http://www.vintages.com>). Customer response to each edition has been more enthusiastic than the last: since its inception, catalogue sales have totalled \$13.5 million, about \$7.5 million of that in the 1995-96 fiscal year.

We've also developed new ways to accommodate customers, agents and licensees wanting to import products we don't regularly stock: this year, for example, we expanded our Consignment Warehouse program for licensees and others who buy imported stock through wine agents; greatly increased stock limits in our warehouse for eight of the largest agents; and announced plans to offer agents their own locked space at the Toronto Warehouse, much of it with 24-hour access.

We have modernized our technologies and installed sophisticated systems that make it easier to track inventory, sales data and other retailing information. The more we know about our stock and what our customers are buying, the better we can respond to the marketplace. And with computer terminals in every store, it's now easier than ever to find a product and, if necessary, have it transferred quickly from one store to another.

### SHOP THE WORLD

Our research told us that our customers – particularly women – wanted liquor stores with some of the same characteristics as other retail stores, such as changing displays, featured products, taped music and contests for free trips and other prizes. In response, in 1994, we launched a new integrated merchandising and marketing program that made all this a reality. *Shop the World* is a reminder that we offer products from more than 60 countries. But more importantly, it offers the dynamic shopping experience people want.

*Shop the World* theme promotions in 1995-96 centered on different types of products (*Taste the World of Beer*, *Shake it Up!*) or products of a particular country or region (*Olé*, *The Wines of Ontario*). Sales of featured products during these promotions increased over the year previous as follows:

- *Shake it Up!*: up 16 per cent
- *Taste the World of Beer*: up 46 per cent
- *Olé*: up 63 per cent
- *The Wines of Ontario*: up 63 per cent.

Based on this success, we'll offer four more promotions in 1996-97, three of which have already proved successful in the past: *Help Save the Animals* (April), a reprise of the 1994-95 promotion that raised more than \$50,000 for endangered species and their habitats; another *Taste the World of Beer* promotion (May), featuring a wide selection of domestic and international beers; *The Wines of Ontario* (October), which spotlights this province's award-winning wines and their makers; and a brand-new promotion, *French Accents* (September), featuring products from one of the world's great wine countries.

### A THIRST FOR KNOWLEDGE

Market research also tells us that today's LCBO customer has a powerful thirst for knowledge about beverage alcohol. Many LCBO services revolve around satisfying it.

This year, we doubled the number of product consultants in our store system, bringing our total to more than 60. Product consultants are the acknowledged experts in our stores, the "ask-me-anything" people. They've taken all three levels of our product knowledge correspondence course, as well as demanding courses offered by external bodies like the Independent Wine Education Guild. Our consultants also share their wealth of knowledge with their colleagues, who in turn become more resourceful and confident.





"I appreciate the quality of service, the pleasant atmosphere and the selection of product available at LCBO stores."

SUGGESTION CARD FROM F. WATERS, MARKHAM

And they serve on panels that decide whether Ontario wines submitted for Vintners' Quality Alliance (VQA) designation merit that distinction; and on LCBO tasting panels, to determine whether potential new listings meet our high standards for taste, quality and value.

We offer more product tastings in our stores than ever before – about 7,200 in more than 140 stores in 1995-96 – many now led by specially trained LCBO staff. Tastings provide customers with the opportunity to sample new products – often with complementary foods. A number of improvements were made to the program this year: the fee for samples was standardized at 25 cents (all of which goes to charity). And the number of products a supplier can offer at a tasting was raised from one to two – three if they are low-alcohol.

How else do we keep our customers well informed?

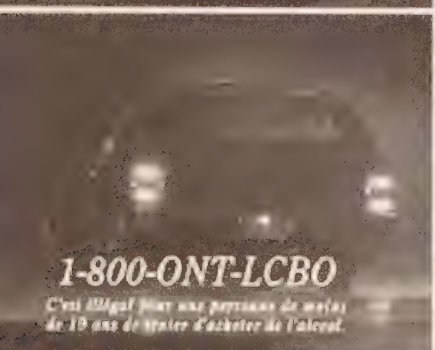
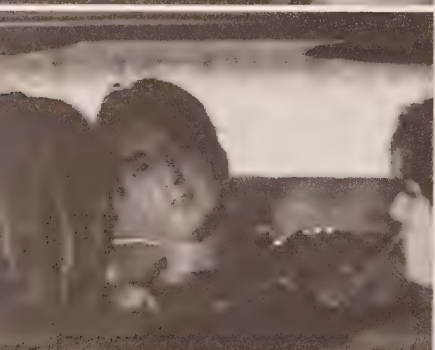
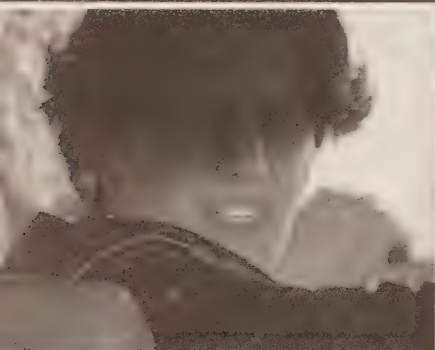
- The LCBO's toll-free Infoline is staffed by trained information officers who can provide answers on just about any product-related topic – in English or French. The popular service (1-800-ONT-LCBO; 416-365-5900 in Metro Toronto) averaged 10,000 calls a *month* this fiscal year.
- Our free quarterly magazine, *Food & Drink*, is available to customers at all our stores. (It is also available in French.) This richly illustrated publication contains recommended food matches for wines, beers and spirits, recipes and suggestions for entertaining, articles by well-known food and beverage writers and featured "great buys."
- We publish seasonal catalogues for gift giving, featuring specialty items from both our General List and our Vintages selections.
- Vintages' monthly release circulars – with a mailing list of 18,000 – feature 100-150 products each, complete with tasting notes, cellaring suggestions, menus, food matches and more.
- We established two sites on the Internet this year – a corporate home page and a Vintages page – which help keep customers informed about product information, prices, limited time offers, store locations, and much more. The corporate home page (<http://www.lcbo.com>) was rated one of the top five sites in Canada by *Ways* magazine, and has averaged 5,000 visits, or "hits", a week. Vintages' site (<http://www.vintages.com>) includes an on-line *Classics Catalogue*, information on upcoming releases, and a store directory.
- At trade and consumer shows, such as the Toronto Wine & Cheese Show, consumers can try new products and find out more about our programs and services.
- Our first-ever television commercial hit the airwaves in June of 1995, advising viewers of our commitment not to serve underage people. We also used newspaper ads to promote *Shop the World*, Christmas gift-giving and Vintages – explaining, for example, that many of the premium products we sell cost less than \$15; and radio commercials let our American neighbours know that excellent selection, service and competitive prices await them north of the border.

The services we introduced or improved this fiscal year read like a checklist of customer preferences as identified by market research. They want to pay with credit cards and direct payment? Done. They want value adds and limited time offers? Done. More wine tastings, more product information, longer hours of service? Check, check, check.

And we're not finished yet.

For example, we hope the government will allow us to open on Sundays where it makes business sense, and communities agree.

Today's LCBO: convenient, accessible, knowledgeable, responsible... at your service. ●




**1-800-ONT-LCBO**

*C'est illégal pour une personne de moins  
de 19 ans de tenter d'acheter de l'alcool.*

*Notre priorité, c'est vous.*

  
**LCBO**

 Contre-mesures sur  
l'ivresse au volant.



OUR FIRST-EVER TV  
COMMERCIAL EXPLAINED  
OUR COMMITMENT  
NOT TO SELL ALCOHOL  
TO MINORS.



# Our responsibility is to you

IN JUNE OF 1995, MILLIONS OF PEOPLE ACROSS ONTARIO SAW SOMETHING THEY HAD NEVER SEEN BEFORE... AN LCBO TELEVISION COMMERCIAL.

The 30-second commercial dramatized a scene in which three teens on their way to a party one rainy night try to buy alcohol at an LCBO store. They've already been refused service at another LCBO store, viewers learn. And before the commercial ends, they will be turned away again. They finally give up and head off to their party without booze. A toll-free telephone number is then shown, and viewers are invited to call for more information about young people and alcohol, and other related topics.

The commercial was broadcast in both English and French in major markets across Ontario. It also aired in Italian, Portuguese and Chinese in Metro Toronto.

Response to the commercial was both strong and favourable. We sent out nearly 7,000 pamphlets and other materials to people who phoned our toll-free number. And a telephone poll of more than 400 Ontarians conducted after the commercial ran shows nearly 70 per cent approved of the LCBO spending money to produce it. That came as no surprise: focus-group testing before the commercial aired showed that underage drinking is the number one issue on people's minds when it comes to the responsible sale of beverage alcohol.

## MORE PEOPLE CHALLENGED, MORE REFUSED

Since 1927, the people of Ontario have relied on the LCBO to ensure that liquor is sold responsibly. The television commercial – and newspaper ads that supported it – helped the public understand why our Retail employees must challenge potential customers and refuse to serve some of them.

The LCBO *Challenge & Refusal* report for the 1995-1996 fiscal year shows that 295,000 individuals were challenged, up from 230,000 the year before. Of those challenged, 60,000 were refused service for either failing to produce valid identification or for appearing intoxicated, 10,000 more than the 50,000 refused in 1994-1995.

*Challenge & Refusal* is in force year-round in our stores. Every summer we reinforce it with our *Bring Your Identification (BYID)* program. *BYID* is designed to call attention to the LCBO's mandate to sell its products only to responsible, of-age customers. Staff wear *BYID* badges to publicize their commitment to responsible service, and to encourage dialogue with customers on the subject.

LCBO employees are well qualified to make the right calls in *Challenge & Refusal* situations, since they receive clear guidelines, training, ongoing counselling from management, and regular reminders about the importance of responsible service and the legal liabilities of serving individuals who are underage or intoxicated.



“On behalf of the OSAID chapters across Ontario, I would like to thank you again for all your encouragement and support. OSAID could not do it without the help of the LCBO.”

LETTER FROM MATT EVANS, EXECUTIVE DIRECTOR, ONTARIO STUDENTS AGAINST IMPAIRED DRIVING.

Every LCBO employee who serves the public, full-time or part-time, receives training under the SMAART (Strategies on Managing Age & Alcohol Related Troubles) program.

The program includes video re-enactments of challenge and refusal situations, and a workbook which each employee keeps as a reference guide. Store managers must ensure all their frontline employees successfully complete this training.

This training includes instruction on who is legally permitted to buy liquor, and how to avoid or deal with awkward or difficult situations involving the underaged, the intoxicated, or people attempting to purchase for either group. SMAART training also helps staff identify physical or mental illnesses whose symptoms may resemble impairment to the untrained eye.

### PROMOTING RESPONSIBLE DRINKING

Our commitment to social responsibility goes beyond refusing to serve certain people – although that’s certainly a key aspect. Social responsibility is an important factor in every decision we make, every strategy we plan as a corporate entity.

For example, as a matter of policy, the LCBO does not carry products on its General List that contain more than 40 per cent alcohol by volume, and we carry and promote low-alcohol beers, wines and spirits. We also have a system of “floor pricing” – minimum prices set for each class of product – since research shows that price affects levels of consumption.

Social responsibility also involves fostering a climate of sensible and enjoyable use of our products. We promote food matches for alcoholic beverages and tips for safe entertaining. Our shopping bags, print ads and other materials all encourage people to drink responsibly, and to not drink and drive. Our consumer publication, *Food & Drink*, also promotes responsible drinking and hosting.

### LCBO: A SOUGHT-AFTER PARTNER

The LCBO has for some time partnered with other organizations to promote social responsibility. These include the Addiction Research Foundation (ARF), BACCHUS, Canadian Centre on Substance Abuse, Canadian Coast Guard, Canadian Power and Sail Squadrons, City of Toronto Board of Health, Drinking/Driving Countermeasures Office of the Ministry of the Attorney General, the Inter-ministerial Committee on Substance Abuse, Metropolitan Toronto Police Force, Ministry of Transportation, Mothers Against Drunk Driving (MADD), Ontario Community Council on Impaired Driving (OCCID), Ontario Students Against Impaired Driving (OSAID) and the Ontario Federation of Snowmobile Clubs. We also work with industry organizations such as the Association of Canadian Distillers, the Brewers of Ontario and the Canadian Wine Institute, and individual suppliers like Labatt and Seagram Canada.

There’s a reason so many organizations work with the LCBO on educational initiatives. Our network of retail stores across Ontario, together with our media relations capabilities, make us a sought-after partner when organizations want to raise public awareness and funds. Working with other organizations enables the LCBO to serve as a cost-effective distribution channel for information produced by us, the ARF, MADD and other such organizations – an important consideration in times of restraint. For example, when people responding to our TV commercial this summer called our toll-free number for information, we were able to send them pamphlets and brochures we had obtained – largely free of charge – from several organizations named above.



During the busy holiday season in December, 1995, we worked with ARF and the Drinking/Driving Countermeasures Office to produce and promote *Having a Party?*, a pamphlet that offered tips on responsible hosting. This was supported by a public service announcement (PSA), news release and media launch.

We created three other PSAs promoting safe entertaining and responsible drinking, as part of a *Spirit of the Season* campaign on CITY-TV, the independent Toronto television station.

MADD's December Red Ribbon campaign is a cause we support with special vigour because it's so directly related to our social responsibility mandate. This year, we offered red ribbons for donations in every LCBO store – and wrapped our Toronto Queens Quay store in a 500-foot ribbon to attract media and public attention.

In the summer, we held another media launch at Queens Quay, this time in support of the Ontario Community Council on Impaired Driving's annual *Arrive Alive* campaign. We also supported that campaign by displaying posters and placing coinboxes in all our stores, and printed OCCID's *Arrive Alive* message on one *million* single-bottle bags.

Our stores also supported Operation Lookout – a program run by the Metropolitan Toronto Police and other forces – which encourages citizens to report suspected impaired drivers by cellular phone or other means.

THE LCBO REALLY IS A RETAILER WITH A DIFFERENCE. EVERY DAY WE STRIKE THE NECESSARY BALANCE BETWEEN OUR OBLIGATION TO SERVE OUR CUSTOMERS, GENERATE REVENUE FOR THE PROVINCE, AND PROTECT PUBLIC HEALTH AND SAFETY – JUST WHAT ONTARIANS EXPECT FROM US.

#### ENVIRONMENT A CONCERN

Our concern for the environment is another important facet of our commitment to society. We've been able to use our purchasing power to persuade suppliers to cut down on excess packaging and to provide reusable product containers. We collect tons of corrugated cardboard and other materials for recycling. We ensure that seized illegal alcohol is disposed of in ways that are environmentally sound. This fiscal year, we also collected on behalf of the government \$26.8 million in environmental levies on non-refillable beverage alcohol containers.

All LCBO stores offer reusable cotton Enviro-bags and sturdy new shopping bags made from recycled plastics – both of which have proved hugely popular. We promote the three Rs – reduce, reuse and recycle – in all our operations and we encourage our customers to do the same.

Endangered species have also received important support from *Shop the World, Help Save the Animals*, a theme promotion so popular in 1995 we brought it back in 1996. In two years, this promotion has raised nearly \$200,000 to help the World Wildlife Fund (Canada) and the Canadian Nature Federation protect endangered species and their habitats in this country and abroad.

#### PHOTO ID CARDS ON WAY

In the summer of 1996, the LCBO will start issuing tamper-proof photo ID cards, on a cost-recovery basis, to applicants who can prove they are 19 or older. The new BYID Photo ID card is being developed by the LCBO in response to public requests for a new form of proof of age for our stores since the Ontario Photo Card, formerly produced by the Liquor Licence Board of Ontario, was discontinued in April of this year.

So as you can see, the LCBO really is a retailer with a difference. Every day we strike the necessary balance between our obligation to serve our customers, generate revenue for the province, and protect public health and safety – just what Ontarians expect from us. ●



CAMP OCHIGEAS -  
ONE OF MANY WORTHY  
CAUSES SUPPORTED  
BY LCBO EMPLOYEES.

## *A community-centred retailer*

TWELVE YEARS AGO, LCBO STORE MANAGER BOB LILLEY WAS PLAYING GOLF WITH FRIENDS WHEN HE REALIZED HE COULD COMBINE HIS LOVE OF THE GAME WITH HIS COMMUNITY INTEREST.

Lilley, manager of our store in Waterford, southwest of Hamilton, launched his Waterford Golf Tournament the following year. Since then, the annual event, organized with the help of Port Dover store manager Jim Taylor, has raised well over \$30,000 for charity, attracting golfers from both the LCBO and the beverage alcohol trade. This year alone, \$5,800 was raised for Camp Trillium, a Waterford facility for kids with cancer, due to open in the spring of 1997.

Lilley is just one of hundreds of LCBO employees who help raise funds for worthwhile projects like Camp Trillium; like Camp Oochigeas, another facility for kids with cancer for which we raise more than \$10,000 a year at our Queens Quay store in Toronto; and the Easter Seals Society, which gets more than \$20,000 a year from our We Care golf and ski days.

An informal survey of LCBO staff showed that employees devote, on average, nearly 100 hours a year each to charitable work in their communities. Many organize or participate in events such as walk-a-thons, car washes, golf and softball tournaments and bake sales. This work has helped hospitals, research foundations, food banks, local sports clubs and childrens' groups, and many other good causes.

And that's just one way in which the LCBO helps the Ontario communities it serves.



“Thank you for the Liquor Control Board of Ontario’s contribution to the 1995 United Way of Greater Toronto campaign.... On behalf of the one million people whose lives you have improved through United Way, please accept our deep appreciation.”

LETTER FROM ANNE GOLDEN, PRESIDENT AND CEO,  
UNITED WAY OF GREATER TORONTO.

## DOZENS OF ORGANIZATIONS SUPPORTED

Staff donations to the United Way now exceed \$100,000 a year. The funds come from donations made by employees, as well as barbecues and other special events organized by staff, and often supported by suppliers.

With stores across the province, the LCBO is able to help dozens of charitable organizations, ranging from the Canadian Cancer Society to the Hospital for Sick Children, through its in-store coinbox program. Ten times a year, two different organizations are selected to participate in a month-long, network-wide program. The other two months of the year, stores are free to host local charities of their choice.

Depending on the month, an organization can raise as much as \$30,000 or more. Funds raised in 1995-96 totalled \$212,483 – and that was just from the 10 months of the year when province-wide campaigns were run.

“We collected \$33,485 in December, 1995,” says June Filler, VP, Fundraising Events, Hospital for Sick Children. The money will be used to fund research or patient-care programs. “Wherever it goes, rest assured, it’s crucial,” she says. “We really count on this aspect of our fundraising now; we’d be hard pressed to find that kind of money somewhere else.”

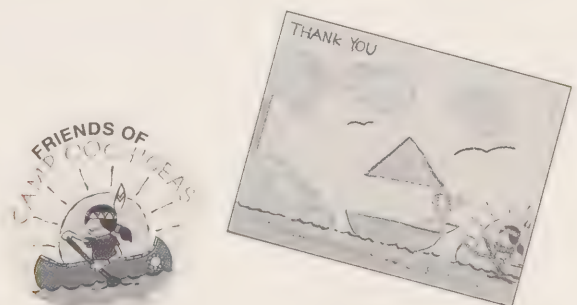
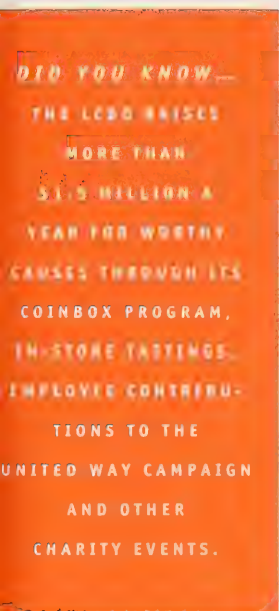
One other source of fundraising is the LCBO’s in-store tasting program. Suppliers charge 25 cents per sample to raise the profile of a particular product or introduce customers to a new product – often in combination with complementary appetizers. While precise figures for this recently revamped program are not available, it is known to have raised thousands of dollars this past year.

When you count up the money raised by individuals like Bob Lilley, through the coinbox program, in-store tastings, the United Way campaign and other events, the total is estimated at more than \$1.5 million a year.

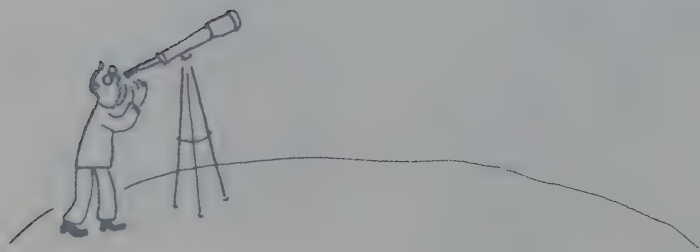
Compared to the \$680 million the LCBO generated in profits for the Government of Ontario during the 1995-96 fiscal year – money that is also used, in part, to fund important social and health programs – it may not seem like much.

But to the people building Camp Trillium – the people at Toronto’s Hospital for Sick Children – the people who depend on 1,250 agencies funded by the United Way across Ontario – it was important indeed.

And to the hundreds of LCBO employees who helped make it happen, it was a symbol of their commitment to their communities – the ones they live in, and the ones they serve. ●



THE LCBO SPIES  
GROWTH IN PREMIUM  
WHISKIES, NEW WORLD AND  
EASTERN EUROPEAN WINES,  
AND DOMESTIC AND  
IMPORTED MICRO BEERS.





# Beyond the Numbers: A Financial Overview

IN 1995-96, LCBO SALES INCREASED BY 5.5 PER CENT OVER THE YEAR BEFORE, BRINGING OUR TOTAL RETAIL BUSINESS TO \$1.9 BILLION. THIS PERFORMANCE SURPASSED ALL OTHER CANADIAN LIQUOR JURISDICTIONS, AND WAS THE KEY TO OUR RECORD-BREAKING TRANSFER PAYMENT OF \$680 MILLION TO THE GOVERNMENT OF ONTARIO.

Another \$183 million was remitted to the government as Provincial Sales Tax. Our total payment of \$863 million represents the largest single non-tax revenue contribution to the Ontario government. At the same time, we decreased our operating expenses to 16.9 per cent of sales in 1996, down from 17.3 per cent in 1995 and 18.9 per cent in 1994. Net income as a percentage of sales decreased from 35.2 per cent in 1995 to 34.9 per cent in 1996, due largely to a shift in consumer buying towards lower-margin products such as beer.

Imported spirits, domestic and imported wines, and all beer categories rose in sales value in 1995-96. More importantly, the LCBO increased its sales volume for the second straight year, as the number of total litres sold grew by 6.9 per cent.

The increase in both volume and value sales in all major product categories can be attributed to three main factors: marketing and merchandising initiatives frequently tied to innovative product launches, led by our *Shop the World* program; well-trained, knowledgeable staff dedicated to superior customer service; and ongoing enforcement efforts against smuggled liquor and illegally manufactured wine.

## THE BEVERAGE ALCOHOL MARKET

In 1996, the entire beverage alcohol industry in Ontario was estimated to be \$5.6 billion, up 3.5 per cent from 1995. The LCBO's share of the market went from 38.9 per cent in 1995 to 39.6 per cent in 1996. Brewers Retail also increased its market share, from 36.1 per cent in 1995 to 36.8 per cent in 1996; winery retail stores climbed from 1.8 per cent in 1995 to two per cent in 1996. Other legal channels lost market share over the course of the year, declining from 8.7 per cent in 1995 to 7.7 per cent in 1996. This decline appears to be at the expense of cross-border shopping, brew pubs and U-brews, whose accumulated share dropped from 6.2 per cent in 1995 to five per cent in 1996. Homemade beer and wine held a 2.3 per cent share of the market in 1996, up slightly from 2.1 per cent in 1995, while de-alcoholized beer held 0.4 per cent of the market in 1996, the same as in 1995. The illegal market continued to capture a significant portion of the marketplace in 1996 – an estimated 13.8 per cent, down from 14.5 per cent in 1995, but still costing the LCBO nearly \$800 million a year in lost sales.

## LCBO CUSTOMERS

Consumer sales through LCBO retail stores accounted for 82.5 per cent of the LCBO's total gross sales in 1996, down slightly from 82.8 per cent in 1995. Other LCBO customers include:

- *licensees*, who accounted for 13.4 per cent of sales in 1996, down slightly from 13.7 per cent in 1995;
- *Brewers Retail*, whose purchases of imported beer amounted to 1.8 per cent of sales in 1996, up from 1.4 per cent in 1995;
- *agency stores*, which accounted for 0.9 per cent of sales in 1996, up marginally from 0.8 per cent in 1995;
- *duty-free stores* operated by the LCBO at Pearson International airport (Duty-free/LCBO), which accounted for 0.5 per cent of LCBO sales in both 1996 and 1995;
- *duty-free sales* to land border point stores and other privately operated duty-free operations across the province (Duty-free/Warehouse) which accounted for 0.7 per cent of LCBO sales in 1996, up slightly from 0.6 per cent in 1995; and
- "*other sales*" which include embassy sales, border levies and a miscellaneous sales category which accounted for 0.2 per cent of LCBO gross sales in both 1995 and 1996.

## MOVEMENT WITHIN CATEGORIES

### SPIRITS

The LCBO's increased sales in volume and value were particularly welcome in the higher-margin spirits category. It grew in volume by 3.3 per cent, led by imported spirits, with a 23.1 per cent increase in volume sales and 12.3 per cent increase in value. This represents the first volume increase in the spirits group in seven years – most likely due to an exciting array of popular new products from suppliers, like flavoured vodkas; our *Shop the World* promotion, *Shake it Up!*; staff training programs like *That's the Spirit!*; and successful anti-smuggling enforcement efforts.

Other spirits (including gin, bourbon, Irish whiskey, non-French brandies and rum) increased their share of volume sales within the imported spirits category. Imported spirit coolers increased their share from 8.4 per cent in 1995 to 11.1 per cent in 1996, while the "other spirits" share jumped from 15 per cent to 17.8 per cent. This reflects the growth in interest in new categories like pre-mixed cocktails.

### WINE

Wine showed a volume increase of 4.2 per cent, with domestic wine rising by 8.4 per cent and imported wine by 2.8 per cent. This is the second consecutive year of increased sales, reversing the pattern of the previous six years of volume declines. Domestic wine value increased by 11 per cent while imported wine value increased by 6.2 per cent.

The success of both imported and domestic wine was due in large part to increased interest in red wine, following several media reports and academic studies on its possible health benefits. Red wine sales increased by 14 per cent in volume, and 16.8 per cent in value, between 1995 and 1996. Rosé wine sales increased by 15.2 per cent in volume and 14.3 per cent in value. Although white wine volume sales declined by 1.3 per cent between 1995 and 1996, value sales increased by 1.7 per cent.

“My compliments to you and the Board on your high calibre, service minded employees, especially Rob Hodgson, Store Manager in Cambridge. The LCBO has a committed workforce and the Board is a very progressive, efficient, service-oriented liquor distribution organization that contributes significantly to the Ontario Government’s bottom line.”

LETTER FROM MARYANNE HILL, MANAGER, EVENT SERVICES, CANADIAN GAS ASSOCIATION.

Vintners’ Quality Alliance (VQA) wines from Ontario and B.C. also showed strong gains, up 38.3 per cent in volume and 22.1 per cent in value, with net sales totalling \$20 million in 1996, as compared to \$16.4 million in 1995 and \$8.2 million as recently as 1992. Contributing factors to this increase in 1995-96 include the LCBO’s *Shop the World* promotion, *The Wines of Ontario*, and its late-summer promotion of VQA wines. Many Ontario consumers have also begun “trading up” to better quality wines of late, and many Ontario wines are now seen in that light.

Icewine, the dessert wine for which Ontario is becoming world famous, also enjoyed strong growth in 1996. With more sizes and price points than ever to choose from, sales of 1995 icewines between their November release and the end of the fiscal year (March 31, 1996) were 50 per cent higher than the 1994 vintage over the same timeframe.

DID YOU KNOW...  
SALES OF ONTARIO  
WINES BEARING THE  
VINTNERS QUALITY  
ALLIANCE (VQA)  
LABEL INCREASED  
BY 38 PER CENT IN  
FISCAL 1995-96.

#### BEER

LCBO beer sales continue to grow significantly both in value and volume. Sales overall increased in value by 14.3 per cent, with all categories experiencing double digit growth: domestic beer by 11 per cent; domestic beer coolers by 26.1 per cent; imported beer by 19 per cent.

Volume beer sales also continued double digit growth, increasing 11.5 per cent overall in 1995-96. Domestic beer volume sales increased by 8.6 per cent, domestic beer coolers by 22.7 per cent and imported beer by 15.7 per cent.

Beer sales increased at both the wholesale and retail levels. LCBO sales to Brewers Retail outlets increased by 27.3 per cent in volume and 35.2 per cent in value. LCBO beer sales to consumers increased by 8.6 per cent in volume and 10.8 per cent in value. The LCBO’s *Taste the World of Beer* promotions introduced many customers to its wide selection of imported and domestic beers.

Brewers Retail stores have experienced the largest growth of any LCBO customer since it began selling imported beer through its retail outlets. In 1993 BRI accounted for only 0.04 per cent of LCBO sales; by 1994 it accounted for 0.4 per cent of LCBO sales and by 1995 1.4 per cent. In 1996, sales to Brewers Retail accounted for 1.8 per cent of LCBO gross sales.



## SHOPPING THE WORLD... LITERALLY

The largest beverage alcohol purchaser in the world, the LCBO listed 4,952 products in 1995-96 (excluding Consignment Warehouse and Private Stock listings), up 8.6 per cent for 1995 and 22.3 per cent from 1992. We sold products from 62 different countries, five more than in 1995.

A look at sales by country of origin reveals that domestic beer volume sales increased by 8.3 per cent in 1996, but their share of regular beer volume sales has declined from 63.4 per cent in 1995 to 61.6 per cent in 1996. This reflects the increased popularity of imported beers, led by products from the Netherlands, which increased their share from 4.3 per cent in 1995 to 5.2 per cent in 1996; Mexico, from 3.1 per cent in 1995 to 4.1 per cent in 1996; Great Britain, from 1.5 per cent in 1995 to 1.8 per cent in 1996; and Ireland, from 1.1 per cent in 1995 to 1.3 per cent in 1996.

WINES FROM NEW WORLD COUNTRIES, ESPECIALLY CHILE, AUSTRALIA AND NEW ZEALAND, HAVE BEEN CHIPPING AWAY AT THE MARKET SHARE LONG HELD BY EUROPEAN WINES. THIS TREND IS EXPECTED TO CONTINUE THROUGH 1996-97.

Both domestic and imported wines have experienced growth in volume sales. Wines from Canada accounted for 33.2 per cent of all LCBO regular wine sales in 1996, up from 32.3 per cent in 1995. Although many products from a number of countries experienced increases in volume sales, increases in actual market share by products from countries other than Canada were led by the United States, up from 7.4 per cent in 1995 to 7.9 per cent in 1996; Italy, from 13.9 per cent in 1995 to 14.7 per cent in 1996; Chile, from 2.8 per cent in 1995 to 3.4 per cent in 1996; Portugal, from 1.7 per cent in 1995 to 1.8 per cent in 1996; and Spain, from 1.8 per cent in 1995 to 1.9 per cent in 1996.

The increased volume of regular spirit sales was led by products from the United States with a six per cent market share in 1996, up from 1.7 per cent volume sales in 1995. Products from Ireland, France, the Russian Federation, South Africa and Mexico all increased their share of volume spirit sales by 0.1 per cent in 1996. Canadian products dropped to 70.5 per cent of regular spirit volume sales in 1996, from 75.2 per cent in 1995.

## WHAT'S AHEAD

### SPIRITS

The LCBO will offer more products tailored to the tastes of our ethnic communities, including Canadians of Chinese and West Indian descent... pre-mixed cocktails – very well received in 1996 – are expected to grow yet again, as are 200mL miniatures... more food-and-drink recipes will be sourced from suppliers... premium whiskies from Scotland, Canada, the U.S. and Ireland will be highlighted, as will gin, now enjoying a worldwide resurgence in popularity.

### WINE

Wines from New World countries, especially Chile, Australia and New Zealand, have been chipping away at the market share long held by European wines. This trend is expected to continue through 1996-97. Eastern Europe, however, is showing strong growth: countries like Bulgaria, Romania, Croatia and Hungary are offering good quality wines – especially reds – at very competitive prices. More of these will be bought for customers of Eastern European origin – or anyone looking for good value.

"On behalf of the wine industry, I would like to express our appreciation to the LCBO staff who devoted their time and energy to help us ensure that the VQA promotion could succeed beyond our expectations in the short time available."

LETTER FROM LINDA FRANKLIN, EXECUTIVE DIRECTOR, WINE COUNCIL OF ONTARIO.

## BEER

We'll continue to capitalize on the growing interest in beers from Canadian microbreweries and from other countries. Ontario beer drinkers are more adventurous than they used to be. Like many wine drinkers, they want to try products from around the world... and they want more information on the beers they buy and the foods they complement best. And like wine enthusiasts, they know they can find their brew of choice at the LCBO, whether it's domestic or imported, from light summer lagers to dark winter stouts. ●

## Public Sector Disclosure Act

On January 29, 1996, the Ontario Legislature passed the *Public Sector Disclosure Act*. The Act, designed to make the public sector more open and accountable to taxpayers, required Ontario's public sector organizations, including the LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees paid \$100,000 or more a year.

Some of the other provincial organizations included under this Act were Ontario Hydro, the Workers' Compensation Board, universities, colleges, hospitals, school boards, municipalities and government ministries. In keeping with the requirements of the Act, the LCBO submits the following information.

NAME	POSITION	SALARY PAID	TAXABLE BENEFITS
Brandt, A.	Chair & CEO	\$102,102.40	\$542.16
Gee, L.	Executive Vice President	\$152,302.42	\$809.04
Browning, J.A.	VP, Finance & Administration	\$112,004.27	\$1,087.92
Kane, M.	VP, Human Resources	\$108,862.45	\$567.36
Kelly, H.	VP, Information Technology	\$105,583.16	\$544.66
Martin, J.	VP, Distribution	\$106,809.44	\$567.36
Sherwood, G.	VP, Retail	\$119,773.30	\$624.24
Wilcox, D.	VP, Merchandising	\$119,773.30	\$624.24



# Key Operational and Financial Statistics

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, of permanent employees and of regular products listed.

## OPERATIONS

	1992	1993	1994	1995	1996
Number of LCBO Stores	618	611	600	597	596
Number of Permanent Employees	3,233	3,100	2,743	2,824	2,803
Number of Regular Products Listed	2,390	2,302	2,336	2,389	2,377

The critical financial variables of net sales, total operating expenses and net income are given in the following table.

## FINANCIALS (values in \$000s)

	1992	1993	1994	1995	1996
Net Sales and Other Income	1,833,386	1,786,479	1,764,731	1,808,518	1,909,804
% change/ previous year	-5.34%	-2.56%	-1.22%	2.48%	5.60%
Operating Expenses	332,439	332,953	333,716	313,029	323,819
As a % of net sales	18.13%	18.64%	18.91%	17.31%	16.96%
Net Income	652,458	612,466	598,909	637,299	666,717
As a % of net sales	35.59%	34.28%	33.94%	35.24%	34.91%

### Note:

The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Sales and Other Income line listed in this table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the Sales Channel Summary table on page 44.

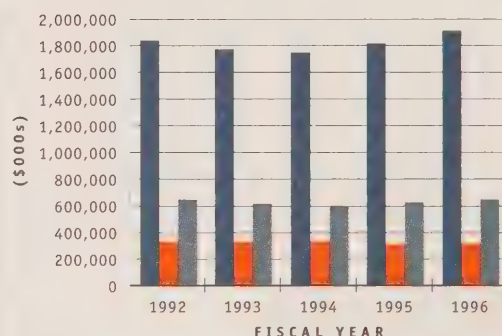
## BREAKDOWN OF OPERATING EXPENSES (values in \$000s)

	1992	1993	1994	1995	1996
Salaries and Benefits	222,886	225,153	209,900	200,344	204,629
Depreciation	22,704	22,832	21,070	18,613	20,962
Other Expenses	86,849	84,968	102,746	94,072	98,228
Total Operating Expenses	332,439	332,953	333,716	313,029	323,819

## KEY INDICATORS: 1992-1996

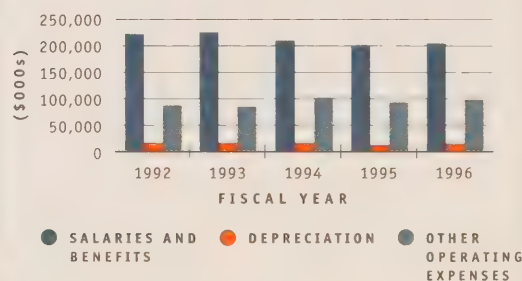


## FINANCIAL INDICATORS: 1992-1996



Prior to the 1993-94 fiscal year, the LCBO had written off 100 per cent of capital expenditures in the year in which those monies were spent. The LCBO now follows new provincial government auditing guidelines by depreciating its capital spending. Net income figures have been restated to reflect this change in accounting procedures. The 1996 and 1995 Operating Expense figures include accrued termination payments totaling \$9.55 million and \$9.31 million respectively. Operating Expense figures have been restated to include freight-out expense.

## OPERATING EXPENSES: 1992-1996





## Revenue Payments

The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial, and municipal governments.

(values in \$000s)

### TREASURER OF ONTARIO

	1992	1993	1994	1995	1996
Remitted by the Liquor Control Board:					
On account of profits	675,000	615,000	585,000	630,000	680,000
Remitted by the Liquor Control Board:					
Ontario retail sales tax on sales through liquor stores	182,298	178,797	173,497	174,189	182,762
Remitted by the Liquor Licence Board:					
On account of licence fees and permits	483,356	511,307	521,784	532,116	529,690
Remitted by others:					
Ontario retail sales tax on sales through Brewers Retail stores and Ontario Winery Retail Stores	154,181	148,742	149,894	154,157	157,046
Ontario retail sales tax on sales through agency stores	1,811	1,809	1,786	1,927	2,301
<b>Total</b>	<b>1,496,646</b>	<b>1,455,655</b>	<b>1,431,961</b>	<b>1,492,389</b>	<b>1,551,799</b>

### RECEIVER GENERAL FOR CANADA

	1992	1993	1994	1995	1996
Remitted by the Liquor Control Board:					
Excise taxes and Customs duties	257,408	237,316	225,518	227,803	235,022
Goods and Services Tax	58,538	61,215	59,137	60,939	60,344
Federal Sales Tax	91	0	0	0	0
Remitted by others:					
Excise taxes, GST and other duties/taxes	315,768	260,555	276,477	319,839	327,660
Good and Services Tax remitted on sales through agency stores	1,057	1,055	1,042	1,124	1,343
<b>Total</b>	<b>632,862</b>	<b>560,141</b>	<b>562,174</b>	<b>609,705</b>	<b>624,369</b>

### ONTARIO MUNICIPALITIES

	1992	1993	1994	1995	1996
Remitted by the Liquor Control Board:					
Grants in lieu of realty and business taxes	5,224	6,262	6,218	6,084	6,188
<b>Total Revenue Payments</b>	<b>2,134,732</b>	<b>2,022,058</b>	<b>2,000,353</b>	<b>2,108,178</b>	<b>2,182,356</b>

#### Note:

These amounts do not include corporation, realty and business taxes paid by the distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees on sales of beverage alcohol is excluded from these figures. The 1995 figures have been restated due to a change in the information received from brewers. The 1996 figures are considered slightly understated due to four brewers not reporting financial information in time for production of this publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.

## Sales Volume

### LCBO SALES

(values in 000s litres)

Product Type	1992	1993	1994	1995	1996
Domestic Spirits	36,713	33,688	31,924	30,836	30,585
Domestic Spirit Coolers	6,943	5,436	5,656	5,628	4,669
Imported Spirits	11,733	11,441	11,375	12,087	14,877
<b>Total Spirits</b>	<b>55,389</b>	<b>50,565</b>	<b>48,955</b>	<b>48,551</b>	<b>50,131</b>
Domestic Wine	22,370	22,023	20,969	20,483	22,208
Domestic Wine Coolers	2,341	1,629	1,255	1,042	903
Imported Wine	44,017	43,966	44,951	46,375	47,671
<b>Total Wine</b>	<b>68,728</b>	<b>67,618</b>	<b>67,175</b>	<b>67,900</b>	<b>70,782</b>
Domestic Beer	43,145	41,697	43,006	45,654	49,584
Domestic Beer Coolers	31	43	36	22	27
Imported Beer	38,400	30,224	24,966	31,012	35,873
<b>Total Beer</b>	<b>81,576</b>	<b>71,964</b>	<b>68,008</b>	<b>76,688</b>	<b>85,484</b>
<b>Total Domestic</b>	<b>111,543</b>	<b>104,516</b>	<b>102,846</b>	<b>103,665</b>	<b>107,976</b>
<b>Total Imported</b>	<b>94,150</b>	<b>85,631</b>	<b>81,292</b>	<b>89,474</b>	<b>98,421</b>
<b>TOTAL</b>	<b>205,693</b>	<b>190,147</b>	<b>184,138</b>	<b>193,139</b>	<b>206,397</b>

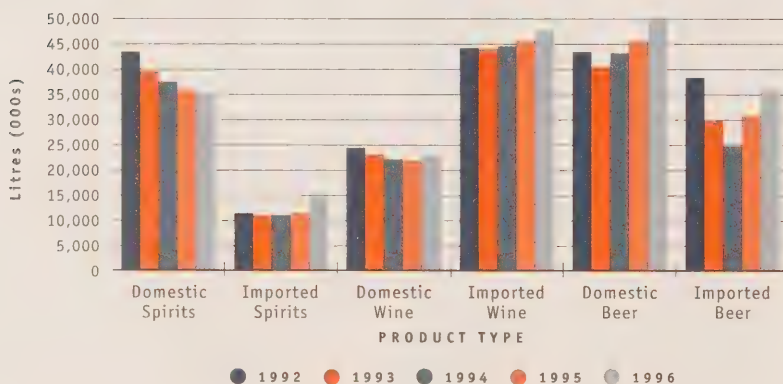
(values in 000s litres)

Product Type	1992	1993	1994	1995	1996
Sales by Ontario Winery Stores	9,480	9,799	9,999	11,960	13,164
Sales by Brewers Retail & On-site Stores	710,118	670,018	665,277	670,494	670,539

Note:

LCBO beer sales figures include LCBO sales to Brewers Retail Inc. The 1996 figures for sales by Brewers Retail and brewery on-site stores are considered slightly understated due to four brewers not reporting financial information in time for production of this publication.

### LCBO SALES VOLUME BY PRODUCT TYPE: 1992-1996



## Sales Value

### LCBO SALES

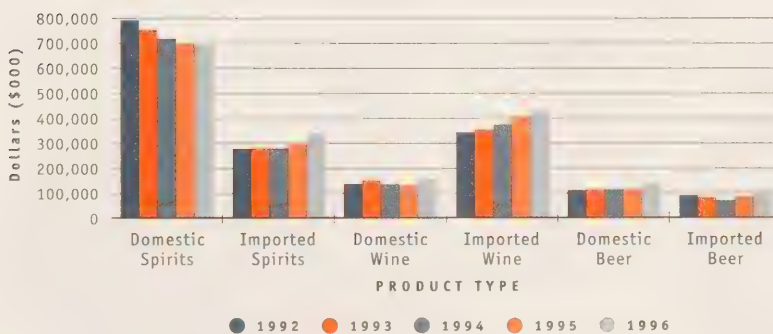
(values in \$000s)

Product Type	1992	1993	1994	1995	1996
Domestic Spirits	763,875	730,965	698,695	678,101	671,080
Domestic Spirit Coolers	29,313	25,073	26,709	26,725	22,148
Imported Spirits	283,148	286,124	285,478	303,441	340,638
<b>Total Spirits</b>	<b>1,076,336</b>	<b>1,042,162</b>	<b>1,010,882</b>	<b>1,008,267</b>	<b>1,033,866</b>
Domestic Wine	136,619	145,536	143,270	143,105	158,888
Domestic Wine Coolers	8,260	6,056	4,663	3,739	3,347
Imported Wine	372,925	379,358	390,427	410,573	435,845
<b>Total Wine</b>	<b>517,804</b>	<b>530,950</b>	<b>538,360</b>	<b>557,417</b>	<b>598,080</b>
Domestic Beer	119,221	119,856	123,599	131,348	145,816
Domestic Beer Coolers	98	135	116	69	87
Imported Beer	96,959	86,893	73,641	90,143	107,275
<b>Total Beer</b>	<b>216,278</b>	<b>206,884</b>	<b>197,356</b>	<b>221,560</b>	<b>253,178</b>
<b>Total Domestic</b>	<b>1,057,386</b>	<b>1,027,621</b>	<b>997,052</b>	<b>983,087</b>	<b>1,001,366</b>
<b>Total Imported</b>	<b>753,032</b>	<b>752,375</b>	<b>749,546</b>	<b>804,157</b>	<b>883,758</b>
<b>Total Non-Liquor</b>	<b>659</b>	<b>2,497</b>	<b>2,553</b>	<b>2,201</b>	<b>2,059</b>
<b>TOTAL</b>	<b>1,811,077</b>	<b>1,782,493</b>	<b>1,749,151</b>	<b>1,789,445</b>	<b>1,887,183</b>

(values in \$000s)

Product Type	1992	1993	1994	1995	1996
Sales by Ontario Winery Stores	55,814	63,107	68,317	83,369	95,227
Sales by Brewers Retail	1,785,851	1,779,453	1,754,761	1,792,638	1,809,030

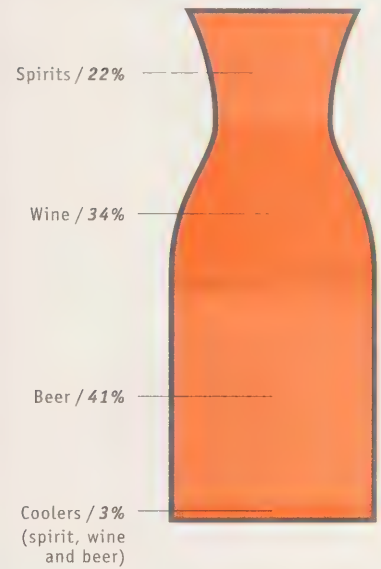
### LCBO SALES VALUE BY PRODUCT TYPE: 1992-1996



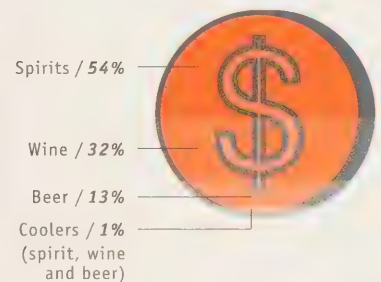
## Share of Sales

(by category)

### SHARE OF VOLUME SALES



### SHARE OF DOLLAR SALES



#### Note:

Sales values listed above, left, for the LCBO and Ontario Winery Stores consist of net sales. Sales values for Brewers Retail consist of net sales plus GST.



## Product Listings

	1992	1993	1994	1995	1996
<b>DOMESTIC</b>					
Spirits	475	469	450	379	352
Wine	514	439	431	457	455
Beer	215	252	289	311	316
<b>IMPORTED</b>					
Spirits	292	267	279	276	292
Wine	833	804	806	874	873
Beer	61	71	81	92	89
<b>Total Regular Listings</b>	<b>2,390</b>	<b>2,302</b>	<b>2,336</b>	<b>2,389</b>	<b>2,377</b>
<b>Vintages Wines, Spirits and Beers</b>	<b>1,506</b>	<b>1,287</b>	<b>1,223</b>	<b>1,987</b>	<b>2,368</b>
<b>Duty-Free Listings</b>	<b>154</b>	<b>175</b>	<b>170</b>	<b>182</b>	<b>207</b>
<b>Consignment Warehouse and Private Stock*</b>	<b>3,290</b>	<b>3,244</b>	<b>3,106</b>	<b>3,515</b>	<b>4,249</b>
<b>Total Product Listings</b>	<b>7,340</b>	<b>7,008</b>	<b>6,835</b>	<b>8,073</b>	<b>9,201</b>

\* Estimates based on invoices produced by Specialty Services.

## Sales Channel Summary

(value in \$000s)

	1992	1993	1994	1995	1996
LCBO Total Sales	2,132,949	2,096,176	2,054,991	2,101,952	2,215,523
Brewers Retail Total Sales	1,946,646	1,937,255	1,910,584	1,951,825	2,060,219
Winery Stores Total Retail Sales	66,419	75,097	81,297	99,233	113,320
<b>OTHER CHANNELS:</b>					
Legal	393,431	411,122	352,746	334,139	280,559
Homemade	107,049	113,568	111,983	113,930	127,829
De-alcoholized Beer	9,965	14,216	15,069	19,600	22,540
Illegal	726,750	753,879	795,097	785,076	774,574
<b>Grand Total</b>	<b>5,383,209</b>	<b>5,401,313</b>	<b>5,321,767</b>	<b>5,405,755</b>	<b>5,594,564</b>

Note:

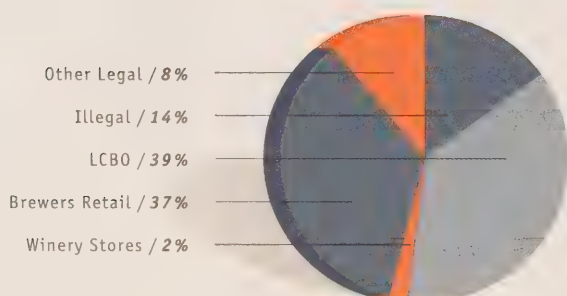
All figures shown are gross sales.

The numbers included in the Other Channels category are estimates.

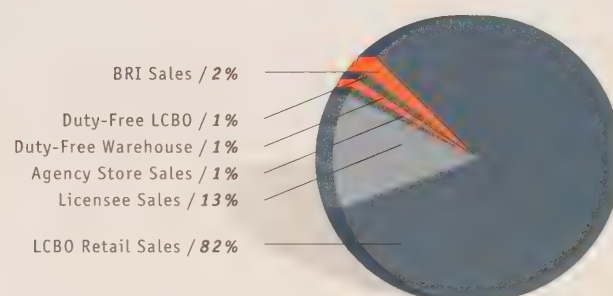
Estimates for illegal sales in the preceding years have been restated.

Brewers Retail and Winery Store data were provided by the Brewers of Ontario and individual winery retail stores.

### VALUE BY SALES CHANNEL

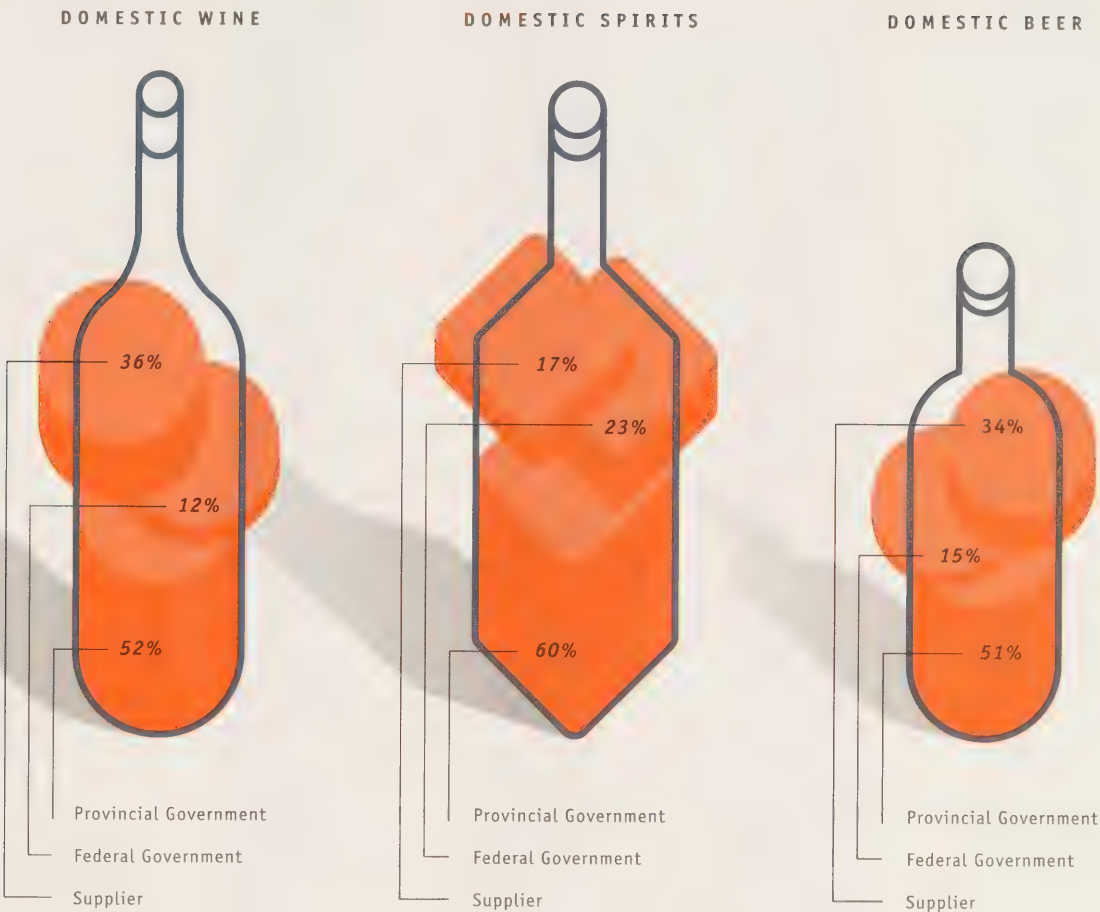


### LCBO VALUE BY SALES CHANNEL



# Retail Price Breakdowns (1996)

## REVENUE DISTRIBUTION



## Average LCBO Retail Prices

Product Type	1992	1993	1994	1995	1996
Spirits	\$19.43	\$20.61	\$20.65	\$20.77	\$20.62
Wine	\$7.53	\$7.85	\$8.01	\$8.21	\$8.45
Beer	\$2.65	\$2.87	\$2.90	\$2.89	\$2.96
Average Transaction Value Per Customer	n.a.	\$21.86	\$22.00	\$22.43	\$23.33

Note:  
Average prices are exclusive of Ontario Retail Sales Tax and the Goods and Services Tax.

## AVERAGE RETAIL PRICES PER LITRE: 1992-1996



## LCBO Sales Volume by Category

CATEGORY	PRODUCT CATEGORY SHARE				
	1992	1993	1994	1995	1996
<b>Canadian Spirits</b>					
Canadian Whisky	40.3%	41.1%	40.0%	41.3%	40.7%
Canadian Rum	17.2%	18.1%	18.0%	18.7%	18.7%
Canadian Vodka	14.3%	14.8%	15.1%	15.9%	16.6%
Spirit Coolers	15.9%	13.9%	15.1%	13.1%	13.3%
Canadian Dry Gin	4.1%	4.0%	3.9%	3.9%	3.6%
Other	8.1%	8.2%	7.8%	7.1%	7.2%
<b>Imported Spirits</b>					
Scotch	30.6%	30.5%	29.9%	26.1%	23.3%
Liqueur	17.1%	17.5%	17.1%	17.3%	16.6%
Miscellaneous Liquors	14.0%	14.4%	14.6%	13.5%	12.7%
Vodka	11.4%	11.1%	11.3%	11.0%	10.4%
French Brandy	9.6%	9.7%	9.8%	8.6%	8.0%
Spirit Coolers	n.a.	n.a.	n.a.	8.4%	11.1%
Other	17.2%	16.7%	17.2%	15.0%	17.8%
<b>Canadian Wines</b>					
White Table	57.1%	58.8%	59.6%	58.5%	56.1%
Red Table	9.5%	11.4%	12.6%	14.6%	17.0%
7% Sparkling	7.6%	7.3%	7.1%	7.1%	6.8%
Sherry	7.3%	7.2%	7.0%	6.7%	5.8%
Wine Coolers	9.5%	6.9%	5.7%	4.8%	3.9%
Other	9.0%	8.3%	8.1%	8.3%	10.4%
<b>Imported Wines</b>					
White Table	61.6%	58.5%	56.2%	53.7%	50.4%
Red Table	26.1%	29.0%	31.4%	34.0%	36.6%
Champagne	4.3%	4.1%	3.8%	3.8%	3.7%
Sherry	2.1%	2.2%	2.2%	2.0%	2.2%
Other	5.7%	6.1%	6.4%	6.6%	7.1%
<b>Canadian Beer</b>					
Ontario Beer	100.0%	97.4%	96.4%	95.4%	95.8%
Other Canadian Beer	0.0%	2.6%	3.6%	4.6%	4.2%
<b>Imported Beer</b>					
U.S. Beer	78.6%	63.9%	48.6%	48.6%	45.9%
Other Imported Beer	21.1%	35.6%	50.9%	50.9%	53.7%
Saké	0.4%	0.5%	0.5%	0.5%	0.4%



## Detailed Sales of Wine by Volume and Value

LCBO sales only.

### VOLUME

(000s litres)

Product Type	1992	1993	1994	1995	1996
Red Wine	13,494	15,089	16,474	18,345	20,911
White Wine	40,318	38,843	37,750	36,793	36,313
Rosé Wine	591	596	599	605	697
Sparkling Wine	4,735	4,361	4,028	3,959	3,989
Fortified Wine	4,163	4,105	3,892	3,810	3,764
Wine Coolers	2,341	1,629	1,255	1,042	903
Other Wine	1,587	1,627	1,831	1,987	2,894
VQA Wines*	904	1,285	1,485	1,200	1,660

### VALUE

(\$000s)

Product Type	1992	1993	1994	1995	1996
Red Wine	112,219	127,971	142,342	163,030	190,371
White Wine	287,506	285,286	280,849	280,061	284,955
Rosé Wine	4,729	4,655	4,788	4,886	5,583
Sparkling Wine	46,411	44,016	41,855	41,840	42,161
Fortified Wine	32,201	33,506	32,627	32,648	33,388
Wine Coolers	8,260	6,043	4,655	3,740	3,342
Other Wine	13,627	13,297	14,897	15,000	21,453
VQA Wines*	8,234	12,885	15,339	16,446	20,075

Note:

\*VQA wine figures are included twice in the above tables; once in the breakdown of wine sales by wine type and then as a separate, consolidated figure on the bottom line. Figures do not include Private Stock sales.

## LCBO Sales by Country of Origin - Volume and Value

### SPIRITS

Country	Litres	Net Value
Canada	35,229,514	686,765,465
Great Britain	4,429,489	115,439,188
United States	2,992,363	35,540,191
France	1,634,583	51,090,341
Ireland	1,203,962	29,465,369
Italy	983,419	21,931,937
Sweden	823,544	18,283,069
Mexico	808,470	20,158,170
Finland	390,950	8,406,454
Barbados	201,141	4,389,118
Russian Federation	188,485	4,105,268
Germany	166,024	4,047,551
Jamaica	147,336	3,311,432
Poland	140,775	2,975,904
Greece	136,292	2,940,015
Netherlands	86,647	1,646,424
South Africa	79,583	1,763,111
Spain	61,370	1,277,827
Switzerland	57,335	1,911,632
Puerto Rico	33,163	788,941
Hungary	23,196	445,596
Portugal	22,791	577,273
Guyana	22,670	548,206
Trinidad	22,131	482,218
Bermuda	22,093	715,081
Lebanon	15,238	355,634
Denmark	14,933	351,125
Bahamas	13,433	250,605
Croatia	11,061	259,715
India	9,722	175,998
Grenada	5,766	163,048
Belgium	5,085	168,444
Austria	4,300	146,955
Israel	2,862	63,202
People's Republic of China	2,568	95,118
Macedonia	2,053	40,538
Japan	1,694	36,048
Syrian Arab Republic	1,477	42,959
Estonia	1,418	31,903
Cuba	1,319	35,290
Cyprus	982	23,028
Chile	678	16,130
Philippines	620	13,544
Czech Republic	533	13,117
Peru	323	8,617
Ukraine	194	4,307
Norway	176	4,892
Bulgaria	116	2,420
Martinique	6	1,210
<b>Total</b>	<b>50,003,883</b>	<b>1,021,309,628</b>

### BEER

Country	Litres	Net Value
Canada	48,744,787	142,917,251
United States	13,917,964	34,779,587
Netherlands	4,082,836	15,700,279
Mexico	3,274,660	12,123,176
Germany	2,949,614	9,760,330
Great Britain	1,456,752	5,479,992
Ireland	1,002,801	3,840,031
Czech Republic	728,531	2,219,498
Poland	557,503	1,834,658
Japan	540,352	2,574,262
Denmark	508,414	1,626,256
People's Republic of China	246,121	826,633
France	242,111	923,629
Italy	193,570	612,184
Trinidad	180,410	676,508
Jamaica	136,118	470,781
New Zealand	88,617	282,970
Belgium	60,935	496,778
Portugal	47,447	162,779
Kenya	40,316	134,491
Greece	20,892	77,164
Cyprus	20,691	96,437
Austria	16,511	53,913
Australia	10,463	32,638
Slovakia	9,035	29,502
North Korea	7,518	24,391
Switzerland	1,560	15,766
Ukraine	1	3
<b>Total</b>	<b>79,086,530</b>	<b>237,771,887</b>

## WINE

Country	Litres	Net Value
Canada	23,064,473	159,013,303
France	18,014,652	164,011,791
Italy	10,191,899	84,037,659
United States	5,494,518	51,343,453
Chile	2,376,845	20,269,761
Australia	2,225,193	23,282,988
Germany	2,192,821	19,652,027
Spain	1,287,373	13,816,276
Portugal	1,262,866	12,001,953
Greece	822,946	5,449,137
Hungary	796,748	5,494,168
South Africa	754,980	7,325,492
Bulgaria	230,258	1,609,457
Croatia	112,189	846,440
Argentina	102,959	959,944
New Zealand	99,575	1,274,532
Israel	96,751	801,223
Romania	65,966	427,943
Slovenia	56,354	395,416
Austria	41,872	424,313
Denmark	26,144	278,673
Czech Republic	25,127	182,366
Macedonia	21,559	134,333
Mexico	21,267	186,949
Great Britain	18,895	202,707
Japan	9,468	84,557
Cyprus	9,401	72,309
Uruguay	8,980	87,574
Morocco	8,887	71,126
Slovakia	8,501	61,205
Brazil	6,132	49,848
Turkey	4,312	34,726
People's Republic of China	4,251	37,582
Bolivia	2,086	23,400
Switzerland	2,082	36,943
Belgium	674	11,036
Russian Federation	271	7,822
Ukraine	18	1,770
Bosnia-Herzegovina	3	15
<b>Total</b>	<b>69,469,296</b>	<b>574,002,217</b>

### Note:

Net value represents net sales, excluding Private Stock sales.

In fiscal 1995-96, the LCBO sold products from 62 different countries, five more than in fiscal 1994-95.



## Balance Sheet

As at March 31, 1996

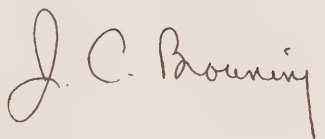
ASSETS	1996 (\$000s)	1995 (\$000s)
<b>Current</b>		
Cash and short-term investments	25,991	34,925
Accounts receivable, trade and others	7,140	4,184
Inventories	202,567	187,599
Prepaid expenses	3,818	2,833
	<b>239,516</b>	<b>229,541</b>
<b>Long-term</b>		
Fixed assets (Note 2)	134,780	129,470
	<b>374,296</b>	<b>359,011</b>
<b>LIABILITIES AND RETAINED INCOME</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	160,727	132,159
Retained income (Note 6)	213,569	226,852
	<b>374,296</b>	<b>359,011</b>
<b>Contingent liabilities (Note 7)</b>		

See accompanying notes to financial statements.

### APPROVED:



Chair and  
Chief Executive Officer



Vice President  
Finance and Administration

## Statement of Income and Retained Income

Year Ended March 31, 1996

	1996 (\$000s)	1995 (\$000s)
Sales and other income	1,909,804	1,808,518
<b>Costs and Expenses</b>		
Cost of sales	919,268	858,190
Retail stores and marketing	233,917	226,381
Warehousing and distribution	38,198	37,386
Administration	30,742	30,649
Depreciation	20,962	18,613
	<b>1,243,087</b>	<b>1,171,219</b>
Net income for the year	666,717	637,299
Retained income, beginning of year, as previously reported	236,164	228,865
Adjustment for termination payments (Note 6)	(9,312)	(9,312)
<b>Retained income, beginning of year, as restated</b>	<b>226,852</b>	<b>219,553</b>
	893,569	856,852
Deduct payments to the Treasurer of Ontario	680,000	630,000
<b>Retained income, end of year</b>	<b>213,569</b>	<b>226,852</b>

See accompanying notes  
to financial statements.

## Statement of Changes in Financial Position

Year Ended March 31, 1996

	1996 (\$000s)	1995 (\$000s)
<b>Cash provided from Operations</b>		
Net income	666,717	637,299
Depreciation	20,962	18,613
Gain on sale of fixed assets	(16)	(714)
	<b>687,663</b>	<b>655,198</b>
Change in working capital	9,659	14,785
Adjustment for termination payments (Note 6)	0	(9,312)
	<b>697,322</b>	<b>660,671</b>
<b>Cash used for investment activities</b>		
Purchase of fixed assets	(27,080)	(27,609)
Proceeds from sale of fixed assets	824	714
	<b>(26,256)</b>	<b>(26,895)</b>
<b>Cash used for provincial transfers</b>		
Social Contract	(7,712)	(7,712)
Profit	(672,288)	(622,288)
	<b>(680,000)</b>	<b>(630,000)</b>
(Decrease) Increase in cash during the year	(8,934)	3,776
Cash and short-term investments, beginning of year	34,925	31,149
<b>Cash and short-term investments, end of year</b>	<b>25,991</b>	<b>34,925</b>

See accompanying notes  
to financial statements.

# Notes to Financial Statements

March 31, 1996

## 1. SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of Accounting

The Board's financial statements are prepared in accordance with generally accepted accounting principles.

### b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the most recent cost.

### c) Fixed Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are depreciated on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

## 2. FIXED ASSETS

	1996			1995
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	14,033	—	14,033	13,908
Buildings	226,554	138,124	88,430	87,588
Furniture and Fixtures	35,500	30,401	5,099	5,188
Leasehold Improvements	56,000	42,391	13,609	12,990
Computer Equipment	45,051	31,442	13,609	9,796
	377,138	242,358	134,780	129,470

## 3. INSURANCE

The Board follows the policy of self-insuring its store assets for theft and for property damage such as fire, water or vandalism. All other material assets are insured by insurance companies.

## 4. LEASE COMMITMENTS

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	(\$000's)
1997	20,400
1998	16,624
1999	12,721
2000	9,861
2001	7,482
Thereafter	14,033
	<b>81,121</b>

## 5. PENSION PLAN

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

*The Ontario Public Service Employees' Union Pension Act, 1994* provides for a reduction of the employer's contributions to the PSPF and the OPSEU Pension Fund for each of the three fiscal years ending 1995-1997. For the current year, the impact of these reductions on the Board's pension expense was a reduction of \$11.8 million.

The Board's expense related to the PSPF and the OPSEU Pension Fund for the year was \$2.1 million (1995 - \$1.3 million) and is included in Costs and Expenses in the Statement of Income and Retained Income.

(continued opposite)



# Notes to Financial Statements

(continuation)

## 6. ADJUSTMENT TO PRIOR YEAR - TERMINATION PAYMENTS

The Board is required to make termination payments to eligible employees when they retire or resign. At March 31, 1996 the accrued termination payments totaled \$9.55 million (1995 - \$9.31 million).

These statements include an adjustment to the prior year for the termination payments accrual which has been determined to be a liability of the Board. The effect has been to decrease the opening retained earnings of 1996 and 1995 from \$236.2 million to \$226.9 million and from \$228.9 million to \$219.6 million respectively. In addition, liabilities for 1995 increased from \$122.8 million to \$132.2 million. The 1995 comparative balance of administration expense in the statement of income and retained income has not been adjusted due to insufficient data to apportion the adjustment between the fiscal 1995 year and prior years.

## 7. CONTINGENT LIABILITIES

Major airlines have taken legal action against the Board contesting the Board's right to collect markup on any liquor which is imported into Ontario by the airlines. A lower court judgment ruled against the Board but this judgment was overturned by an Ontario Appeal Court decision which rejected the airlines' claim. However, the airlines have been granted leave to appeal to the Supreme Court of Canada and a successful appeal against the Board could result in a possible loss of \$22.8 million (1995 - \$22.8 million) plus interest of \$16.7 million (1995 - \$14.2 million) at March 31, 1996. Any judgment against the Board will be accounted for as a prior period adjustment in the year the claim is resolved.

An association of privately-owned duty-free stores to which the Board sells liquor have commenced legal proceedings against the Board contesting the Board's right to collect markups on liquor. An unfavourable judgement for the Board could result in a possible loss of \$26.4 million (1995 - \$21.4 million). This case is presently on hold pending the outcome of the airlines' cases. Any judgment against the Board will be accounted for as a prior period adjustment in the year the claim is resolved.

# Auditor's Report

TO THE LIQUOR CONTROL BOARD OF ONTARIO AND TO THE  
MINISTER OF CONSUMER AND COMMERCIAL RELATIONS

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 1996 and the statements of income and retained income and changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario  
June 13, 1996

Erik Peters, FCA  
Provincial Auditor

“Our \$680 million transfer to the Ontario Treasury  
in fiscal 1995-96 is the largest in our 69-year history.  
The 1996-97 target is \$685 million<sup>\*</sup> – and we’re well  
on our way to another record-breaking year.”

Andrew S. Brandt,  
Chair and CEO, July 1996.



CADON  
LC  
-R26

LCBO ANNUAL REPORT 1996-1997

We've bettered  
our best



# Corporate Governance

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## Letter of Transmittal

The Hon. David H. Tsubouchi,  
Minister of Consumer and  
Commercial Relations

Dear Minister,

I have the honour to present to you  
the 1996-97 Annual Report of  
the Liquor Control Board of Ontario.

Respectfully submitted,



Andrew S. Brandt  
Chair and CEO

The Liquor Control Board of Ontario is a Schedule II Crown Agency. Its mandate, powers and duties are defined by the *Liquor Control Act* and its Board of Directors has a fiduciary duty for the stewardship of the organization.

Although there is only one shareholder for a public body (i.e. the public), that shareholder speaks with many voices, including the Minister and staff of the provincial parent ministry (Consumer and Commercial Relations), Management Board of Cabinet, the provincial Minister of Finance, the Provincial Auditor, as well as the Board of Directors responsible for the organization.

The LCBO Board of Directors and management recognize the importance of governance policies, as part of the organization's accountability to government, customers, the public, suppliers, employees and the communities the LCBO serves.

The LCBO has in place a number of corporate governance policies and procedures. These are regularly evaluated and modified to ensure their effectiveness. They include:

- *Board Protocol*: This ensures that all matters required by statute to be approved by the Board of Directors, together with all significant matters affecting the LCBO, monetarily and otherwise, are brought to the Board's attention. The protocol further ensures that such matters are brought to the Board of Directors for approval in a timely manner, and in such a way as to enable Board Members to gain a proper understanding of the matter and sufficient time to make a reasoned decision.
- *Memorandum of Understanding*: This agreement between the LCBO and the Minister of Consumer and Commercial Relations sets out the working relationship between the LCBO and the provincial government.

- *Orientation and Education Program for Directors:* New Board Directors undertake an orientation and education program. On an ongoing basis, current corporate governance developments are brought to the Board's attention, such as those referred to in the *Guidance for Directors – Governance Processes for Control*, issued by the Canadian Institute of Chartered Accountants.
- *Board by-law:* The LCBO is reviewing its general by-law to further enhance corporate governance.
- *The LCBO develops, adopts and measures its performance against a corporate strategic plan and related business plans* (see page 26).
- *Social Responsibility:* The Board has in place policies and procedures to ensure that its mandate is delivered in a socially responsible manner (see Chair's remarks, page 16).
- *Environmental Issues:* The Board receives regular reports from staff on environmental compliance.
- *Product Management Committee:* This committee reviews and recommends approval of applications for the listing of beverage alcohol products with the LCBO. Any negative decision of the Product Management Committee, including any decision to delist a product, may be appealed to the Listings Appeals Committee.

- *Store Planning and Development Committee:* This committee reviews and recommends all proposed real estate/leasing matters for approval by the Board.
- *Workplace Health and Safety Committees:* In accordance with the requirements of the *Occupational Health and Safety Act*, the Board approves an annual health and safety program and ensures that the required number of health and safety meetings are held throughout the province by joint bargaining unit and management health and safety committees. Health and safety reports are provided to the Board of Directors on a monthly basis.
- *Audit Committee of the Board:* The LCBO has an independent Audit Committee with a specified mandate. It is composed of Board Members who are non-management directors. The Audit Committee oversees the integrity of internal controls and management information systems. It also reviews and makes recommendations to the Board concerning the efficiency and effectiveness of operations, the annual financial plan, the annual audited financial statements, quarterly financial statements, and the annual report.
- *The Provincial Auditor*, who is the external auditor for the LCBO, has unlimited access to the Audit Committee. ■



## LCBO Board of Directors

During Fiscal 1996-97

Andrew S. Brandt  
*Chair and Chief Executive Officer*

Chantal Haas  
*Vice-Chair*

Rajula Atherton  
*Director; Chair, Audit Committee*

Orrin O. Benn  
*Director; Member, Audit Committee*

M. Sharon Broderick  
*Director*

Gerald J. Charney  
*Director (resigned June, 1996)*

John S. Lacey  
*Director*

Vernon C. Parrington  
*Director; Member, Audit Committee*

Larry C. Gee  
*Executive Vice President*

The LCBO wishes to thank the Office of the Provincial Auditor and the Audit Committee of the Board of Directors for their assistance in the preparation of this document.

Produced by LCBO Corporate Communications

Financial information prepared by  
LCBO Finance & Administration

French adaptation by  
LCBO French Language Services

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 1996-1997.



*Stock content:*

50 per cent total recovered fibre  
20 per cent post-consumer waste

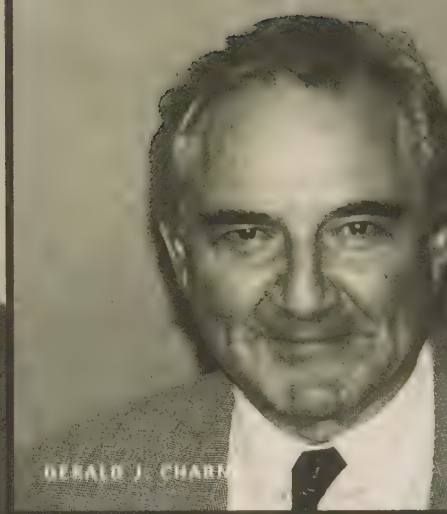




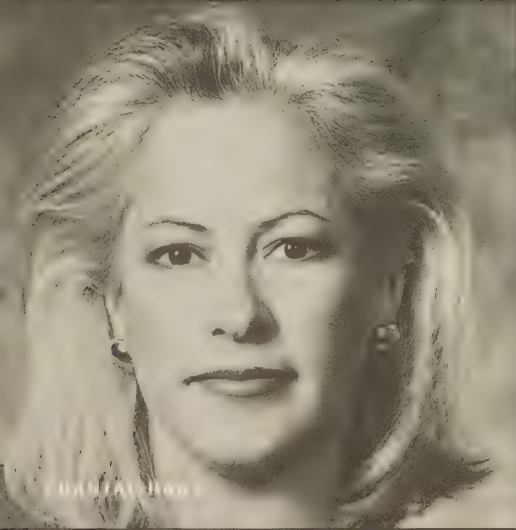
ANDREW S. BRANDT



ORRIN D. BENN



GERALD J. CHARN



DANA L. HOOT



JOHN S.



PAULA MATHESON



M. SHARON KNAPP



WILLIAM C. PARTRIDGE



# LCBO Board of Directors during fiscal 1996-97

THE DIRECTORS OF THE LCBO, LIKE THOSE OF OTHER PROVINCIAL GOVERNMENT AGENCIES, BOARDS AND COMMISSIONS, ARE APPOINTED BY THE SITTING GOVERNMENT THROUGH ORDER-IN-COUNCIL. APPOINTMENTS, USUALLY FOR A THREE-YEAR PERIOD, ARE SOMETIMES RENEWED.

**ANDREW S. BRANDT:**

*Appointed Chair and Chief Executive Officer February 6, 1991.*

Re-appointed in March 1997 for an unprecedented third three-year term as both Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in both the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations.

**CHANTAL HAAS:**

*Appointed Vice-Chair May 15, 1995.*

Ms. Haas, Managing Partner, operates a successful Toronto-based multilingual human resources organization, The Haas Group/Bilingual Plus Inc., which specializes in French, English, Spanish and Japanese placements. In addition to leading her business, she participates actively in Toronto's French community. Ms. Haas is currently a Member of the Board of Directors and Past President (two-terms) of Le Cercle canadien de Toronto. She is a member of the Executive Board of Directors and Chair, Special Events, for the French Chamber of Commerce (Ontario) and Vice-President, Public Relations, for Women Entrepreneurs of

Canada. Ms. Haas is also a National Board Director with the Association of Professional Placement Agencies & Consultants and is a Regional Board Director for the Employment & Staffing Services Association of Canada. She has inspired many young women entrepreneurs through her extensive involvement with the Step Ahead and Step-Up mentoring programs.

**RAJULA ATHERTON:**

*Appointed October 7, 1994.*

Mrs. Atherton brings to the LCBO wide experience in increasingly responsible finance and administration positions with the Government of Ontario, including the Addiction Research Foundation, from 1972 until 1988. In 1988 she left the government to become a partner, with her husband, in a public accounting firm, Atherton and Atherton, and in a grape-farming operation, Atherton Vineyards. She is active in community services such as the Women's Rural Economic Development Organization and the World Literacy Foundation.

**ORRIN O. BENN:**

*Appointed September 8, 1994.*

Mr. Benn has many years of experience in marketing management positions in packaged goods companies, mostly with Heublein Incorporated where he rose to be Director of Marketing of the International Beverage Group. Just prior to joining the LCBO Board, Mr. Benn was a Member, Board of Governors, Exhibition Place, where he was Chair of the Audit Committee. He currently teaches international trade and marketing at Seneca College.

**M. SHARON BRODERICK:**

*Appointed December 12, 1991.*

Now in her second term on the LCBO Board, Ms. Broderick is a member of the Faculty of Business at Brock University where she lectures in the marketing area and the Faculty of Social Sciences as a member of the Communications Studies Program. She is also involved in the development of the Cool Climate Oenology and Viticulture Institute (CCOVI) at Brock as a member of the Advisory Council and as Chair of the Institute Program Promotion Committee. Ms. Broderick also serves as a member of the Board of Governors of the St. Catharines General Hospital.

**GERALD J. CHARNEY:**

*Appointed May 4, 1995.*

Resigned in June 1996 to accept another appointment. A full-time labour arbitrator and mediator with more than 30 years of experience in labour law, Mr. Charney has his own firm, Charney Arbitrations, and is a Vice-Chair of the Ontario Labour Relations Board. He has also been a Vice-Chair of the Crown Employees Grievance Settlement Board. He has served as a facilitator/mediator on behalf of the Ontario Government in the restructuring of Algoma Steel, the Algoma Central Railway and Spruce Falls Lumber. As a long-time wine collector, Mr. Charney has a special interest in the merchandising of beverage alcohol and in increasing consumer knowledge about these products.

**JOHN S. LACEY:**

*Appointed June 26, 1996.*

Mr. Lacey is a veteran of the retail and hospitality industries, with nearly 35 years of experience with companies such as Molson, Loblaw's, Scott's Hospitality Inc. and the Holiday Inn and Marriott hotel chains. Now President of WIC Western International Communications Ltd., Mr. Lacey is a graduate of the Harvard Business School who emigrated to Canada in 1978 and became a Canadian citizen in 1983. Mr. Lacey has also served as a director of the Retail Council of Canada, the Canadian Racing Drivers Association and Scott's Hospitality Foundation. His community interests include Street Haven, a shelter for abused women, and the North York Community Alliance, which helps diverse ethnic communities come together on common ground,

**VERNON C. PARRINGTON:**

*Appointed September 8, 1994.*

Mr. Parrington brings to the LCBO Board the experience of a 30-year career in labour relations and workplace technology, mostly in the automotive and aerospace industries. Until his retirement in 1990, he served in a number of positions in the United Auto Workers, including Assistant to the Vice President and, later, the Canadian Auto Workers, where he finished his career as Director of the Skilled Trades Department. He has handled grievances at all levels, sat on arbitration panels, mediated disputes, and helped develop and upgrade apprenticeship and training programs for workers on behalf of the provincial Skilled Trade Advisory Boards. Mr. Parrington is now on the board of Teranet, which oversees all land registrations and titles in Ontario.



*A new decor package, based on the colour scheme and lighter woods used in the award-winning Manulife Centre store on Bloor Street in Toronto, will be the standard look for future LCBO IMAGE stores.*

# The LCBO at a glance

The Liquor Control Board of Ontario regulates the production, importation, distribution and sale of alcoholic beverages in Ontario.

The LCBO is the largest single purchaser of beverage alcohol in the world, buying wine, spirits and beer from more than 60 countries for Ontario consumers and licensees.

To provide this service, the LCBO operates five regional warehouses that supply 595 stores across Ontario. Through this integrated distribution and retailing network, nearly 5,000 products are available to consumers either by direct purchase or by special order. Customers can also obtain many other products not regularly listed in Ontario through the LCBO Private Stock ordering program.

The LCBO also operates four stand-alone Vintages stores, which offer consumers a wide selection of premium wines, spirits and beer. Vintages products are also available in seven Vintages boutiques and over 140 corners in regular LCBO stores. They can also be ordered through any LCBO outlet. Some 500 additional premium products can be ordered from each edition of the Vintages *Classics Catalogue*.

In partnership with the LCBO, established retailers operate 90 agency stores in communities without large enough population bases to support regular LCBO stores.

For air travellers, the LCBO operates duty-free stores at Terminals 1 and 2 at Pearson International Airport.

The LCBO also regulates the sale of products through 428 Brewers Retail stores, 30 on-site brewery stores, 330 winery stores, three distillery stores, 11 land border-point duty-free stores, and duty-free operations at Pearson International Terminal 3 and at Ottawa International Airport.

In the interests of consumer protection, the LCBO conducts approximately 180,000 tests on 10,000 different alcoholic beverages each year. This quality assurance testing ensures that all products sold by the LCBO, Ontario winery stores and Brewers Retail stores comply with the federal *Food and Drug Act*, as well as the LCBO's high standards for quality and taste.

FOR FURTHER INFORMATION ABOUT LCBO PRODUCTS AND SERVICES, CALL THE LCBO TOLL-FREE INFOLINE AT 1-800-ONT-LCBO (668-5226). IN METROPOLITAN TORONTO, CALL (416) 365-5900 OR VISIT THE LCBO'S TWO INTERNET SITES: <http://www.lcbo.com> (OUR CORPORATE HOME PAGE), AND <http://www.vintages.com> (THE VINTAGES HOME PAGE). ■



# LCBO Named Innovative & Socially Responsible Retailer of the Year

Shortly after the end of the 1996-97 fiscal year, and the day after turning 70 years of age, the LCBO received two perfect birthday gifts: the Excellence in Retailing Awards (ERA) for Innovative Retailer of the Year and for Socially Responsible Retailer, both in the large store category. The awards were presented on June 2, 1997, at the Retail Council of Canada's ERA competition in Toronto, celebrating outstanding achievers in all sectors of the retail industry.

The Innovative Retailer of the Year award, ERA's top prize, acknowledges overall industry leadership and innovative approaches to customer and employee relations. The Socially Responsible Retailer award is given to organizations that have helped the community advance social, health-related or environmental causes.

"The LCBO is pleased to be recognized as best in class by its peers, not only as a progressive retailer, but also as a leader in promoting social responsibility," said LCBO Chair and CEO Andrew S. Brandt, who accepted the awards on behalf of the LCBO. "As a government enterprise, we always seek to strike a balance between generating revenue and responsible service. Our customers have responded favourably to these efforts and our year-end performance reflects this."

"This recognition is yet another indicator of how far the LCBO has evolved as a modern, customer-focused retailer, with innovative merchandising programs like *Shop the World*, and staff development initiatives involving product knowledge and social responsibility training and customer service excellence," added Executive Vice President Larry Gee.

Reflecting the organization's leadership and expertise in all aspects of progressive retailing, the LCBO was also a finalist in ERA's Store Layout & Design, Retail Marketing & Advertising, and Staff Development & Motivation categories.



# Key accomplishments

## 1996-97 Objectives and Results

OBJECTIVES	TARGET	RESULT
• Increase sales by:	1.9 %	5.8 %
• Increase profit transfer by:	\$5 Million	\$50 Million
• Reduce costs at Head Office and the regional offices by:	\$2 Million	\$5 Million
• Reduce product handling costs by:	\$2.1 Million	\$10.9 Million
• Reduce funds tied up in inventory by:	\$30 Million	\$54.4 Million

### OUR MISSION STATEMENT:

"As a government enterprise, the LCBO will be a customer-focused and profitable retailer of beverage alcohol, a leader in promoting social responsibility in its use, and an impartial and objective regulator of the beverage alcohol industry."

### VISION STATEMENT:

"To continue the transition to a shared marketplace through commercialization initiatives which increase private-sector participation and partnershiping, while continuing to be the beverage alcohol retailer of choice through superior performance."

## 1997-98 Targets

• Increase sales by:	3.8 % from \$1,996,791 to \$2,072,511 (\$000s)
• Increase income by:	3.6 % from \$701,030 to \$726,517 (\$000s)
• Reduce the expense to net sales ratio from:	16.7% to 16.2%
• Reduce the administrative expense to sales ratio from:	2.2 % to 2.1%
• Reduce warehouse per case handling costs by:	4.5 %
• Reduce store per selling unit costs by:	3.5%
• Increase inventory turns from:	5.0 to 5.5 per year



*As the world's largest single purchaser of beverage alcohol products, the LCBO uses its considerable buying power and supplier connections in more than 60 countries to provide Ontario consumers with unsurpassed selection at competitive prices.*



# We've bettered our best:

## Chair's remarks

In the last Annual Report, my remarks carried the headline "A record-breaking year." And fiscal 1995-96 was indeed a record-breaking year for the LCBO, according to a number of different measures. We chalked up the highest transfers to the Ontario Treasury in our history. *The Financial Post* ranked us as Canada's most profitable company, as well as second in return on investment, third in return on shareholders' equity and seventh in net income.

We enjoyed impressive sales – up 5.5 per cent from the previous year – at a time when the rest of the retail world was suffering badly and Canadians were continuing to spend a smaller proportion of their income on beverage alcohol. And we outperformed all other liquor jurisdictions in Canada.

With all that good news, I looked a year ahead and wondered at the time those remarks were written what I would be able to tell you now about fiscal 1996-97. All things considered, it seemed unlikely we would be able to improve a great deal on the results of 1995-96. After several years of declining sales, bottoming out in 1994, we had turned our direction and the key numbers were beginning to rise again. We were doing very well indeed and we had no intention of resting on our laurels, but we thought this peak year would be difficult to top. We were bold enough to project another modest increase in 1996-97, setting our sights on a \$685-million transfer to the Ontario Treasury.

We had the highest net income in our 69-year history, breaking the \$700 million barrier by \$1 million. And our transfers to the provincial government totalled a record-breaking \$730 million.

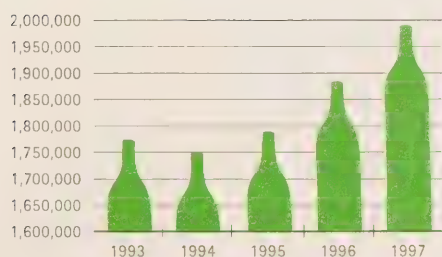
I'm delighted to say now that we underestimated our continuing success. The results for 1996-97 were substantially beyond projection and we can report even more improvement in most measures of our business than we achieved in 1995-96. In net sales, we came very close to \$2 billion, missing that landmark by only \$3 million [see Net Sales Trend chart]. That meant a total sales increase of almost \$210 million in just two years – a quarter of a billion dollars in three years. Our gross margins in 1996-97 were over \$1 billion. We had the highest net income in our 69-year history, breaking the \$700 million barrier by \$1 million. And our transfers to the provincial government totalled a record-breaking \$730 million [see Transfer Trend chart].

"THE LCBO DELIVERS AN IMPORTANT SERVICE TO ONTARIANS. WE'VE GOT A MORE EFFICIENT LCBO THAN WHEN WE CAME TO OFFICE"

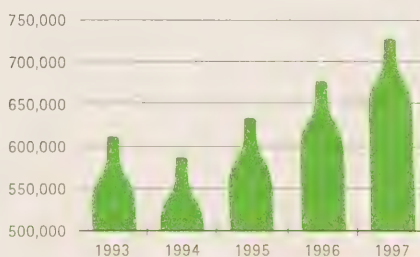
PREMIER MIKE HARRIS



NET SALES



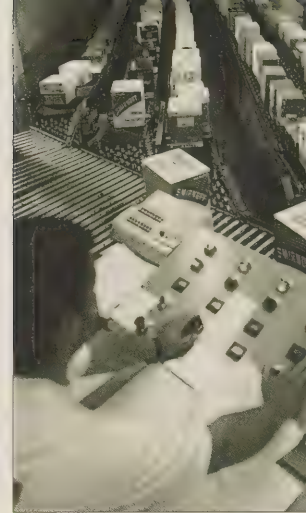
PROFIT TRANSFER TO THE PROVINCE



**We've bettered our best**  
CONTINUED



Net sales rose by \$110 million in fiscal 1996-97, with growth in all major product categories — wine, spirits and beer contributing to the nearly \$2 billion total. Since 1994, LCBO net sales have grown by more than \$248 million, outpacing the Ontario retail market as a whole.



Productivity improvements in Distribution and Retail operations totalled nearly \$11 million in fiscal 1996-97. Operating expenses as a percentage of net sales dropped to 16.1 per cent, down from 17 per cent last year. Five years ago, operating expense were 18.6 per cent of net sales.

The figures were up over *all* product categories. Domestic spirits were up about 2.1 per cent — an impressive gain after several years of decreases of between 1.6 and 4.7 per cent. Domestic wine sales were up 12 per cent. Our sales of domestic beer were up 10.1 per cent — at a time when overall domestic beer sales were *down* 1 per cent.

Imported spirits were up about 4.2 per cent, imported wines were up 7.8 per cent and imported beer was ahead of last year's sales even though Brewers' Retail Inc. (BRI) took many of the better-selling imported brands into its system.

There has been some shift from the home-consumer market to the wholesale market: that is, a larger proportion of our sales is going to BRI and licensed establishments and a somewhat smaller proportion is going to individual consumers in our retail stores. This trend, along with a change in sales volumes away from the higher-margin spirits category to the lower-margin beer and wines, tends to erode our gross margin. We do not get as much revenue from wholesale as we do from retail sales.

However, the wholesale market still represents a relatively small proportion of our total sales: 17.8 per cent, compared with 14.8 per cent in 1993. [For a more detailed analysis of sales figures and category performance, see "Beyond the numbers," page 23].

IN FISCAL 1996-97, THE LCBO CLOSED THREE STORES, RELOCATED FIVE IN BARRIE, SUDBURY, MISSISSAUGA, KANATA AND TORONTO, AND OPENED THREE NEW MINI STORES, ONE IN BARRIE AND TWO IN TORONTO. MAJOR STORE RENOVATIONS WERE ALSO COMPLETED IN LONDON, OTTAWA AND OWEN SOUND. THE LCBO HAS 595 STORES ACROSS THE PROVINCE. OF THESE, 281 ARE GOVERNMENT OWNED AND THE REMAINING 314 OUTLETS ARE LEASED.



These gains have been accomplished in a climate of price stability: for the past five years there has been no real increase in the prices of our products. This has been a benefit to our consumers – and a factor, along with the exchange rate, in the decline of cross-border shopping that adversely affected our sales in the late 1980s and early 1990s.

Although the LCBO is sometimes viewed as a monopoly, we have vigorous competition in all of our product categories except spirits. As well as BRI and the Ontario winery stores, there are increasing numbers of U-Brews and U-Vints that appeal to cost-conscious consumers. And, of course, the illicit market in beverage alcohol continues to be a major factor that is impossible to quantify with any absolute certainty. However, we have good reason to believe our efforts to combat the illegal market have had some significant success. Our improved sales figures are clear indicators of the LCBO's excellent performance in an increasingly competitive, shared marketplace.

### MANY REASONS FOR SUCCESS

There is no single reason why we have been so successful in the past year; instead, there are a number of contributing factors, many of them planned and implemented and some that are fortuitous circumstances in the market environment around us.

One factor is that 1996-97 was the first full year when credit- and debit-card purchases were available in all our stores. With the trend towards alternatives to cash in all retail purchasing, this convenience has given the LCBO a level playing field with other places where our customers shop. Purchases with plastic now account for 26 per cent of our sales, and this proportion will almost certainly continue to grow.

Our *Shop the World* promotions, featuring various product groups from all over the world and right here at home, have shown clearly what effective merchandising can do. Launched three years ago, this program has been an unqualified success.

"WE ARE CURRENTLY TAKING STEPS TO MODERNIZE THE LCBO ... WITH GOALS OF BETTER CUSTOMER SERVICE, IMPROVED EFFICIENCIES AND STRONG HEALTH AND SOCIAL STANDARDS. WE HAVE BEEN TAKING SUGGESTIONS ON HOW TO IMPROVE THE SYSTEM AND MODERNIZE IT FURTHER FROM OUR MANY STAKEHOLDERS. CERTAINLY WE'VE HAD DISCUSSIONS WITH THE OLBEU EMPLOYEES AS WELL. OUR GOAL SIMPLY IS TO MAKE THE SYSTEM BETTER FOR THE CONSUMER AND BETTER FOR THE TAXPAYER."

CONSUMER AND  
COMMERCIAL  
RELATIONS MINISTER  
DAVID TSUBOUCHI



After years of belt-tightening, Ontario consumers are treating themselves to small pleasures, which is reflected in our sales and increased interest in premium products



Introduced in 1994 as a customer convenience, credit and debit cards now account for 26 per cent of all LCBO customer transactions



## We've bettered our best CONTINUED

LCBO RETAIL PLANS FOR FISCAL  
1997-98 CALL FOR SIX MORE BEER  
COLD ROOMS; TWO MORE IMAGE  
STORE MAKEOVERS; FOUR MAJOR  
RENOVATIONS TO STORES IN  
RICHMOND HILL, AURORA, NIAGARA  
FALLS AND PARRY SOUND; UP TO  
FIVE ADDITIONAL MINI STORES; AND  
FOUR RELOCATIONS, INCLUDING  
THE AVENUE ROAD STORE IN NORTH-  
CENTRAL TORONTO.



A general improvement in economic indicators has undoubtedly contributed to our excellent sales results. After several years of restraint, customers have shown they want to give themselves the occasional treat, and this is reflected in improved sales for alcoholic beverages, including premium brands.

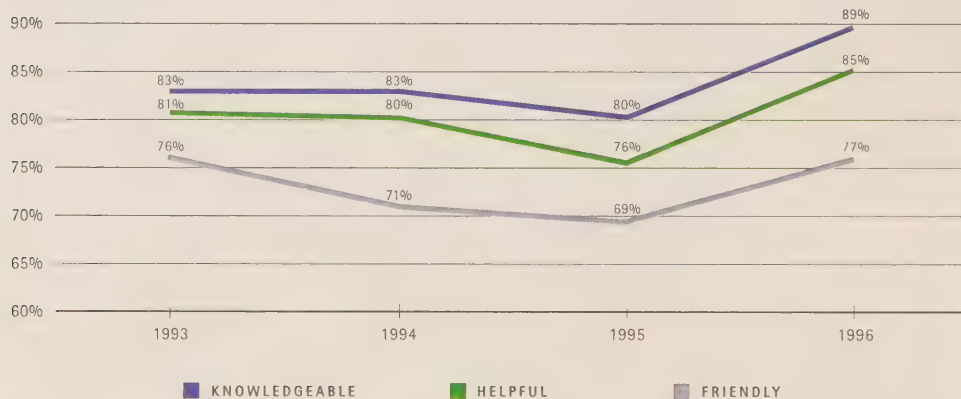
But we are convinced that our transformation into a modern retailer is the major reason for our recent success. Customers are drawn to stores where the atmosphere is pleasant, there is an excellent selection of well-displayed quality products, the staff is knowledgeable and helpful and the shopping environment is enlivened with music, tastings and colourful, interesting product presentations.

The LCBO has come a long way from the days of counter stores and order slips. Modernization costs money and we have occasionally been criticized for our expenditures on renovating and updating our stores and merchandising our products: some have felt it was not entirely appropriate for a government enterprise to behave like a retailer. But we are a retail organization – one of the largest in the province – and we got that way by doing many of the things any good retailer does to better serve customers.

One of the earmarks of a good retailer is a friendly, helpful and knowledgeable sales staff and we have one of the best. Each store employee is trained in customer service and product knowledge. Our three-part course in the history, manufacture and characteristics of wines, beer and spirits was developed to make sure our employees learn all they need to know to assist customers in making informed choices about their purchases. The course has proven so successful that it has been adopted by other provincial liquor boards, and we recently made it available to interested customers.

Our *Shop the World* promotions, featuring various product groups from all over the world and right here at home, have shown clearly what effective merchandising can do. Launched three years ago, this program has been an unqualified success.

### HOW CUSTOMERS RATE OUR STAFF



Source: LCBO customer service tracking.

Each of the four *Shop the World* promotions in 1996-97 resulted in substantially increased sales of featured products. One promotion, *Help Save the Animals*, promoting the products of a variety of suppliers, had the overall theme of respecting our environment, particularly endangered species and their habitats. During its month-long run, sales of featured products were up a huge 77.1 per cent, and a total of \$147,000 – \$27,000 over target – was donated to organizations working to guard wetlands, wildlife and ecosystems from degradation.

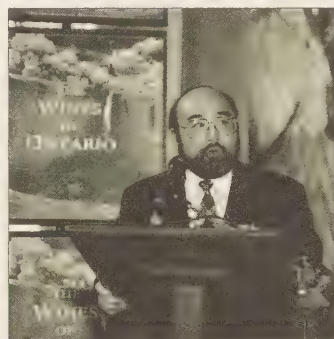
The other three promotions during the fiscal year were *Taste the World of Beer* (sales of featured products up 18.7 per cent), *French Accents* (up 53.1 per cent) and *Wines of Ontario* (up 74.1 per cent). Sales of *all* products on our shelves are usually at least 2 per cent higher during *Shop the World* promotions than in months with no promotion. There is no question that this integrated and imaginative merchandising strategy has paid huge dividends.

"THE SUPPORT WE GET FROM THE LCBO AND OTHER CORPORATE SPONSORS IS ESPECIALLY IMPORTANT AT THIS TIME OF GOVERNMENT CONSTRAINT."

DAVE STEWART,  
PRESIDENT OF THE  
ONTARIO COMMUNITY  
COUNCIL ON IMPAIRED  
DRIVING (OCCID)



*Sales of featured products increased by more than 53 per cent during our French Accents promotion. The informative displays, in-store tastings, free recipe guides and food and drink matches that are all part of this and other Shop the World theme promotions are particularly popular with our female customers.*



*LCBO's popular Shop the World theme promotions have boosted sales of featured products by 60 per cent on average and turned in-and-out shoppers into browsers. Here, Minister of Consumer and Commercial Relations, David Tsubouchi, officially launches the Wines of Ontario "world event".*



*Thanks to comprehensive product knowledge training, supported by suppliers, LCBO staff are more knowledgeable than ever, and well prepared to help shoppers make informed purchases*

**We've bettered our best**  
CONTINUED



*With the high cost of real estate in prime locations like downtown Toronto, mini stores, which offer up to 500 selections of the most popular brands in under 2,000 square feet of display space, are often the most cost-effective way for the LCBO to expand its retail store network. There are now 11 mini stores in total, including this one in the Beach area of Toronto.*



*We're wrapping up \$20 million in annual gift sales as more and more shoppers turn to the LCBO as their year-round source for affordable presents.*

## MOVING AHEAD IN A TIME OF UNCERTAINTY

The LCBO's results for 1996-97 would be impressive at any time, but I believe they are even more impressive because we accomplished them during a year of considerable uncertainty for our organization.

We were under pressure to reduce our expenses even more, although we had made a number of significant cuts in the previous couple of years. The Operational Agency Review (OAR), carried out by staff of the Management Board of Cabinet and other ministries and an independent retail consultant, examined our Head Office operations and recommended further cuts in spending: another \$41.9 million in 1996-97, and a further \$13.9 million in 1997-98.

We achieved the first target and bettered it. The cuts were accomplished through significant decreases in net inventory, reduction in capital expenditures and in Head Office expenses, improvements in retail and warehouse productivity and closure of our bottling plant in the Toronto warehouse.

Another cause for uncertainty was that the retail scene was still in the doldrums for most of the year. However, we enjoyed the third year of increased sales, for a total increase over three years of 14.3 per cent. To our knowledge, no other retail organization came close to our performance.

And of course the greatest cause of uncertainty, which continued throughout the fiscal year, was the question of our future: would the LCBO be privatized? Would parts of our organization be sold off? Would there be some arrangement combining private- and public-sector retailing?

Shortly after the beginning of the new fiscal year, in April of 1997, the government released its framework for privatization review. It laid out the ground rules for determining how to assess various government services and entities in order to decide how to "improve service to the customer and value to the taxpayer... in an open and accountable way." The LCBO was not among the first candidates named for review, so presumably it will be some time before our future direction is clear.

THE FUTURE MAY SEE US OFFERING  
EVEN MORE TYPES OF SHOPPING  
ENVIRONMENTS, INCLUDING POSSIBLY  
A BULK WINE STORE WHERE  
CUSTOMERS CAN GO TO BOTTLE THEIR  
OWN WINE, MORE GIFT CENTRES,  
AND ADDITIONAL ETHNIC STORES TO  
BETTER SERVE OUR DIVERSIFIED  
CUSTOMER BASE.





## CONSTRAINTS ON GROWTH

A large organization like the LCBO needs to be forward-thinking. It needs to plan ahead: some initiatives take a long time to come to fruition and all must be seen in the context of the operations of the whole. Strategic business planning has long been an important part of LCBO operations: we look not just a year or two ahead, but do our best to anticipate what the more distant future holds, so we can effectively prepare for it.

Also, in order to attract and retain qualified staff, an organization must have a certain level of stability. Although there is probably no such thing as job security at the end of the twentieth century, an organization facing the possibility of a radical change imposed on it is at something of a disadvantage in the marketplace.

We believe that the LCBO has proven itself highly effective in combining the roles of retailer, regulator and advocate of social responsibility – and in evolving with the times.

In this period of government restraint we have been challenged to do more with less, to focus on our core business and to build an even better organization. I believe we have more than met that challenge.

THESE PARADOXES OF PROGRESS  
WILL REMAIN AS CHALLENGES FOR THE  
FUTURE, BUT WE MUST REMAIN ALERT  
TO THE POSSIBILITIES TO MOVE FROM  
THESE STATES

TONY CARVALHO, CHAIR  
OF MADD CANADA



LCBO investigators, with assistance from police and Canada Customs officials, are winning the battle against smugglers and illegal alcohol manufacturers. Here they pose with some of the \$11 million in illicit alcohol seized in the last two years

## We've bettered our best CONTINUED

EVERY YEAR, THE ORGANIZATION  
RAISES \$1.5 MILLION FOR CHARITY  
THROUGH IN-STORE DONATION  
BOXES, THE EMPLOYEE UNITED WAY  
CAMPAIGN, GOLF AND SOFTBALL  
TOURNAMENTS, SKI DAYS, BAKE AND  
BOOK SALES, AND MORE.



In this period of government restraint we have been challenged to do more with less, to focus on our core business and to build an even better organization. I believe we have more than met that challenge. I have confidence that, given a stable basis for our ongoing planning and government support for reinvesting in our business, we can continue to meet the challenges of the future.

There's no doubt that doing our best to prove our organization's value to the government and taxpayers of Ontario has been good for the LCBO – and good for our customers, as well as for the taxpayers and the government. Our operations are stronger than ever and the numbers show it. But one of the prices of the uncertainty about our future has been a loss of valuable staff, particularly from Head Office.

There comes a time when reducing expenses is counter productive to maintaining a top-quality organization. According to the old saying, it takes money to make money, and we must continue to make judicious investments in our operations, and to reinvest a portion of our profits in the business, if we are to have continued success.

We hope the uncertainty that surrounds our future will soon be resolved, so we can continue fulfilling our vision of serving our customers, supporting social responsibility, and providing a strong source of revenue to benefit the provincial government and the people of Ontario.

### THE "SOCIAL RESPONSIBILITY" SIDE OF THE BUSINESS

It's a cliché to point out that our business is not just like any other business and our products are not just like any other products. We take our mandate for social responsibility in the purchase and consumption of beverage alcohol just as seriously as our mandate to make a profit for the provincial government.

Although we are in business to sell our products, we will not sell them to some people: those who are under age or lack proper ID to prove their age, those who appear to be intoxicated and those who we suspect are shopping for someone who is under age or intoxicated. The main tool for this initiative is our Challenge & Refusal program. In 1996, LCBO staff challenged 560,000 potential customers – up from 295,000 the year before – and 76,000 were refused service – 16,000 more than the year before.

*Our new BYID card and Check 25 programs contributed to a large increase in the number of challenges – nearly 560,000, up from 295,000 the year before. Of those challenged, 76,000 were refused service for either failing to provide valid identification or for appearing intoxicated. That is 16,000 more than in 1995-96.*



In December 1996, we introduced *Check 25* – a policy of asking for proof of age for anyone who appears to be under 25 years of age – to make very sure we do not sell beverage alcohol to minors. Since that time the number of challenges has almost doubled but the number of refusals has not increased by the same measure. So we are confident we are weeding out the vast majority of under-age, would-be customers.

Our BYID (*Bring Your ID*) program focuses on the long summer weekends that account for the highest numbers of alcohol-related accidents on Ontario's roads and waterways. Staff wear buttons inviting customers to ask about our social responsibility programs. We have developed and introduced a tamper-proof BYID photo card, which has been endorsed as valid proof of age by the provincial government. Cards can be obtained, with proper documentation and a \$15 fee, at all LCBO stores. And, yes, we do perform random checks to ensure applications and guarantors are valid.

Also within the broad area of social responsibility, we and our customers raise a considerable amount of money for charity each year, and 1996-97 was no exception. I have already mentioned the \$147,000 we were able to donate to environmental causes as a result of our *Help Save the Animals* campaign. As well as that, the coin boxes on our cashiers' counters brought in more than a quarter of a million dollars during the fiscal year; this money went to a wide range of health and social service agencies.

The proceeds of in-store product tastings go to charity and LCBO employees carry out many fund-raising efforts for their communities and our corporate United Way campaign each year. In all, the LCBO raised more than \$1.5 million for worthy causes during 1996.

### ANOTHER 70 YEARS?

As we look ahead to our next year-end results, we are optimistic. We are projecting further sales growth of approximately 4 per cent, or \$76 million, which will take us well over the \$2 billion mark in net sales. We expect to achieve a record level of litre sales – 228 million litres, a nine-million litre increase. We forecast a modest growth in sales of spirits – about 2 per cent; a growth of almost 3 per cent in wine sales; and continuing strong beer sales. These projected numbers are predicated on a strengthening of the home-consumer market.

In short, we look forward to another year of firsts: highest net sales, highest net income and highest transfer to the Ontario Treasury.

It is now 70 years since the LCBO was established in 1927, and we will be celebrating that anniversary in various ways during the calendar year. We've come a very long way and we look forward to many more years of continuing improvement and responsible and responsive service. ■

"WITHOUT YOU, HOWEVER, THERE  
WOULD BE NO WAY FOR US TO HELP  
THE MORE THEN ONE MILLION PEOPLE  
IN OUR COMMUNITY WHO WILL TURN  
TO A UNITED WAY-FUNDED AGENCY  
THIS YEAR. WE ARE TRULY GRATEFUL  
TO YOUR ENTIRE ORGANIZATION  
FOR YOUR CONTINUED SUPPORT AND  
GENEROSITY."

ANNE GOLDEN,  
PRESIDENT,  
UNITED WAY OF  
GREATER TORONTO



ANDREW S. BRANDT  
CHAIR AND CHIEF EXECUTIVE OFFICER  
JUNE 1997





"THE LCBO IS ACTUALLY THE BIGGEST  
NEW PLAYER IN TOWN WHERE  
IT COMES TO WINE EDUCATION."

DAVID LAWRASON,  
WINE WRITER,  
GLOBE AND MAIL



## LCBO'S POSITION IN THE ONTARIO MARKETPLACE

### Improving our overall position

LCBO outlets compete in the Ontario marketplace with Brewers Retail Inc., the stores of Ontario wineries, and establishments where consumers make their own wine and beer. We have no legal competitors in the spirits market. In total, there are more than 1,800 outlets selling alcohol in Ontario. Here's what the market looks like:

- 595 LCBO stores (32.4 per cent of all outlets)
- 428 Brewers Retail stores (23.3 per cent of all outlets)
- 346 U-Brew/U-Vint outlets (18.9 per cent of all outlets)
- 330 Ontario winery stores (18.0 per cent of all outlets)
- 90 LCBO agency stores (4.9 per cent of all outlets)
- 30 on-site brewery stores (1.6 per cent of all outlets)
- 11 border-point duty-free stores (0.6 per cent of all outlets)
- 3 on-site distillery stores (0.2 per cent of all outlets)
- 2 privately-operated airport duty-free stores (0.1 per cent of all outlets)

As the pie charts on page 20 show, in 1996-97 we retained our relative position in terms of volume and lost value share, owing to a reassessment of the sales of beer and wine through U-Brew and U-Vint outlets.

### A larger share of the beer market and a smaller share of the wine market

Our share of the total provincial beer market grew from 10.2 per cent to 11.1 per cent (an increase of 8.3 million litres). Brewers Retail's share of the beer market shrank from 84.9 per cent to 82.6 per cent.

Our share of the wine market fell from 53.9 per cent to 38.6 per cent. Winery retail stores also declined while the U-Brew/U-Vint outlets increased their market share.

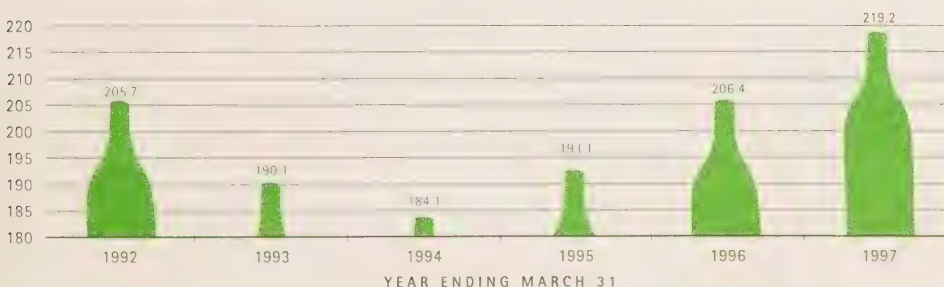
- The winery retail stores share of the wine market fell from 10 per cent to 7.5 per cent.
- The U-Vint's share of the wine market grew from 14 per cent to 29.9 per cent.

The apparent dramatic shift in the share of the market held by the U-Brew/U-Vint sector largely reflects previous under-estimates about the size of this market. A recent study commissioned by the Brewers of Ontario resulted in these more accurate figures.

### Lower illegal market sales

The value share of the provincial market held by smuggled spirits and illegally-manufactured wine fell from an estimated 14 per cent in 1995-96 to 11 per cent in 1996-97. This translates into an additional \$13 million in net sales for the LCBO – and increased revenue for the Ontario Government.

**LCBO VOLUME SALES TREND 1992-97**  
(values in millions of litres)



## Beyond the numbers

CONTINUED

CONSIDERING THE COST OF REAL ESTATE IN PRIME LOCATIONS LIKE DOWNTOWN TORONTO, MINI STORES WITH THEIR REDUCED CAPITAL INVESTMENT ARE OFTEN THE MOST COST-EFFECTIVE WAY FOR THE LCBO TO EXPAND ITS NETWORK. MOST MINI STORES HAVE PAID FOR THEMSELVES IN SHORT ORDER: FOR EXAMPLE, TORONTO'S BEACH MINI STORE PAID FOR ITSELF IN SIX MONTHS. WHILE THE CHINESE KIOSK IN MARKHAM TOOK ONE YEAR.



### THE REASONS FOR OUR SUCCESS

We outperformed the retail sector in Ontario because of:

- better service to customers
- innovative marketing and merchandising
- our continuing drive against smuggled spirits and illegally-manufactured wine.

#### Better service

We continued to improve service. For example:

- more people are using our expanded customer payment options. Introduced in 1994, credit- and debit-card payments now account for 26 per cent of all LCBO sales.
- we adjusted our mix of stores to meet the needs and populations of the communities they serve. We relocated stores in Barrie, Sudbury, Mississauga, Kanata and Toronto. We opened three new mini stores, one in Barrie and two in Toronto. And we completed major renovations of stores in London, Ottawa and Owen Sound.
- we introduced a new look, new services and new amenities in our urban IMAGE stores.
- we increased training of LCBO staff about the products we sell. The product knowledge and customer service training were often presented in association with suppliers and industry trade groups. A more knowledgeable staff leads to trading-up and experimentation by customers, which means additional revenues and profits.

#### Innovative marketing and merchandising

Here are some other programs we undertook this year that increased both sales and customer satisfaction:

- *Shop the World* theme promotions
- Limited Time Offers (temporary price reduction of up to 20 per cent on selected products)
- Value-adds (bonus items that suppliers attach to their products).

Vintages, the LCBO's premium products division, increased sales by 33.8 per cent over fiscal 1995-96 which, in turn, was 22.4 per cent greater than fiscal 1994-95.

Vintages *Classics Catalogue* sales amounted to \$9 million in the last fiscal year and have totalled \$23 million since the introduction of the catalogue in 1994.

#### Progress against illegal market sales

Since 1992, when we first identified the severity of the problem, the LCBO has been a leader in focusing attention on the trade in illicit alcohol and helping to marshal enforcement efforts.

Our Investigative Services Unit works closely with federal, provincial and municipal police forces, the Liquor Licence Board and Canada Customs to stop the flow of smuggled and illegally-manufactured alcohol. In 1996-97, enforcement agencies seized over 600 thousand litres of smuggled spirits and about 100 thousand litres of illegally-manufactured wine.

Reducing the size of the illegal market means higher sales through legal channels — particularly through the LCBO — and reduced health risks.



## RISKS AND UNCERTAINTIES

The LCBO continues to face competition. In recent years, we've been successful in curbing the trade in illegal alcohol, both through our enforcement efforts and by publicizing the problem. The challenge is to continue that success in the years ahead.

Our prospects are also affected by broader trends over which we exercise little control. For example, the trend towards increased consumption of beer and wine at the expense of spirits affected LCBO profits because the margins on beer and wine are lower than on spirits.

Consumption patterns are often influenced by social and health issues. Media reports of research showing that moderate consumption of beverage alcohol has beneficial health effects (the so-called French Paradox) led to higher sales, particularly of red wine.

The LCBO also faces the challenge of dealing with an uncertain future for the organization itself: decisions by the Government of Ontario could change the retail and distribution structure and ownership patterns in the provincial beverage alcohol market.

Whatever our future — and whatever the shared nature of the market that emerges — we believe that by continually improving customer service while aggressively managing costs, we can strengthen our position in the \$5.9 billion provincial beverage alcohol market. ■

## Public Sector Disclosure Act

*The Public Sector Disclosure Act*, passed by the Ontario Legislature in 1996, is designed to make the public sector more open and accountable to taxpayers. The Act requires Ontario's public sector organizations, including the LCBO, to disclose annually the names, positions, salaries and taxable benefits of all employees paid \$100,000 or more a year. In keeping with the requirements of the Act, the LCBO submits the following information for fiscal 1996-97.

NAME	POSITION	SALARY PAID	TAXABLE BENEFITS
Brandt, A.	Chair & CEO	\$104,063.89	\$509.16
Browning, J.A.	VP, Finance & Administration	\$117,937.80	\$1,079.66
Clute, C.P.	(seconded to Min. of Finance)	\$100,700.51	\$492.64
Dunning, R.	VP, Corporate Affairs	\$100,445.58	\$491.54
Gee, L.C.	Executive Vice President	\$152,301.41	\$759.74
Kane, M.	VP, Human Resources	\$108,861.45	\$532.76
Kelly, H.	VP, Information Technology	\$109,339.99	\$530.58
Martin, J.	VP, Distribution	\$106,808.43	\$532.76
Sherwood, G.	VP, Retail	\$120,569.31	\$586.14
Wilcox, D.	VP, Merchandising	\$120,728.72	\$589.28

"SHOP THE WORLD IS A PRIME  
EXAMPLE OF HOW PUBLIC AND  
PRIVATE SECTOR PARTNERSHIPS CAN  
WORK TOGETHER TO THE ULTIMATE  
BENEFIT OF THE CONSUMER."

JIM CLARK,  
ONTARIO SALES AND  
MERCHANDISING  
MANAGER, VINCOR  
INTERNATIONAL INC.



## Key Operational and Financial Statistics

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, of permanent employees and of regular products listed.

### OPERATIONS

	1993	1994	1995	1996	1997
Number of LCBO Stores	611	600	597	596	595
Number of Permanent Employees	3,100	2,743	2,824	2,803	2,828
Number of Regular Products Listed	2,302	2,336	2,389	2,377	2,349

The critical financial variables of net sales, total operating expenses and net income are given in the following table.

### FINANCIALS (values in \$000s)

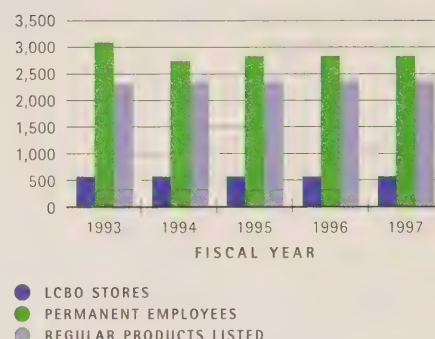
	1993	1994	1995	1996	1997
Net Sales and Other Income	1,786,479	1,764,731	1,808,518	1,909,804	2,013,873
% change/previous year	-2.56%	-1.22%	2.48%	5.60%	5.45%
Operating Expenses	332,953	333,716	313,029	323,819	324,457
As a % of net sales	18.64%	18.91%	17.31%	16.96%	16.11%
Net Income	612,466	598,909	637,299	666,717	701,030
As a % of net sales	34.28%	33.94%	35.24%	34.91%	34.81%

Note: The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Sales and Other Income line listed in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the Sales Channel Summary on page 32.

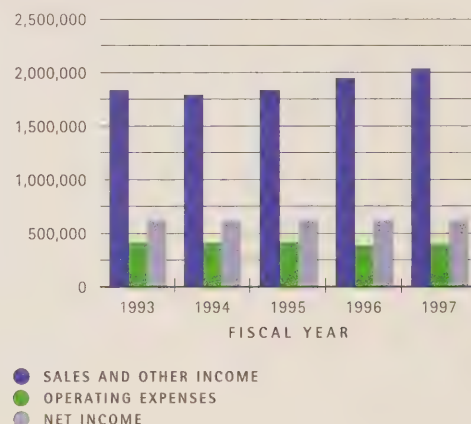
### BREAKDOWN OF OPERATING EXPENSES (values in \$000s)

	1993	1994	1995	1996	1997
Salaries and Benefits	225,153	209,900	200,344	204,629	203,699
Depreciation	22,832	21,070	18,613	20,962	22,167
Other Expenses	84,968	102,746	94,072	98,228	98,591
Total Operating Expenses	332,953	333,716	313,029	323,819	324,457

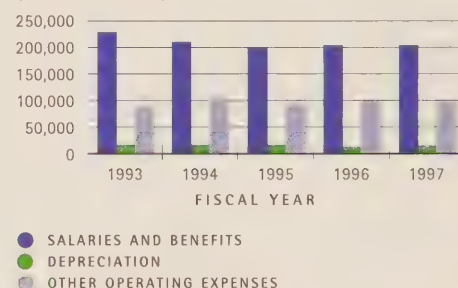
### KEY INDICATORS: 1993-1997



### FINANCIAL INDICATORS: 1993-1997 (values in \$000s)



### OPERATING EXPENSES: 1993-1997 (values in \$000s)



## REVENUE PAYMENTS

Year ended March 31, 1997

The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial, and municipal governments.

(all values in \$000s)

### TREASURER OF ONTARIO

	1993	1994	1995	1996	1997
Remitted by the Liquor Control Board:					
On account of profits	615,000	585,000	630,000	680,000	730,000
Remitted by the Liquor Control Board:					
Ontario retail sales tax on sales through liquor stores	178,797	173,497	174,189	182,762	192,357
Remitted by the Liquor Licence Board:					
On account of licence fees and permits	511,307	521,784	532,116	529,690	520,829
Remitted by others:					
Ontario retail sales tax on sales through Brewers Retail stores and Ontario Winery Retail Stores	148,742	149,894	154,157	157,046	157,582
Ontario retail sales tax on sales through LCBO agency stores	1,809	1,786	1,927	2,301	2,565
<b>Total</b>	<b>1,455,655</b>	<b>1,431,961</b>	<b>1,492,389</b>	<b>1,551,799</b>	<b>1,603,333</b>

### RECEIVER GENERAL FOR CANADA

	1993	1994	1995	1996	1997
Remitted by the Liquor Control Board:					
Excise taxes and Customs duties	237,316	225,518	227,803	235,022	239,058
Goods and Services Tax	61,215	59,137	60,939	60,344	64,672
Federal Sales Tax	0	0	0	0	0
Remitted by others:					
Excise taxes, GST and other duties/taxes	260,555	276,477	319,839	327,660	342,763
Good and Services Tax remitted on sales through LCBO agency stores	1,055	1,042	1,124	1,343	1,496
<b>Total</b>	<b>560,141</b>	<b>562,174</b>	<b>609,705</b>	<b>624,369</b>	<b>647,989</b>

### ONTARIO MUNICIPALITIES

	1993	1994	1995	1996	1997
Remitted by the Liquor Control Board:					
Grants in lieu of realty and business taxes	6,262	6,218	6,084	6,188	5,816
<b>Total Revenue Payments</b>	<b>2,022,058</b>	<b>2,000,353</b>	<b>2,108,178</b>	<b>2,182,356</b>	<b>2,257,138</b>

Note: These amounts do not include corporation, realty and business taxes paid by the distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees and agency stores on sales of beverage alcohol is excluded from these figures. The 1997 figures for Remitted by Others are slightly understated due to eight brewers not reporting financial information at the time of publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through LCBO agency stores are estimates.



## SALES VOLUME

### LCBO SALES

(values in 000s litres)

PRODUCT TYPE	1993	1994	1995	1996	1997
Domestic Spirits	33,688	31,924	30,836	30,585	30,615
Domestic Spirit Coolers	5,436	5,656	5,628	4,669	5,556
Imported Spirits	11,441	11,375	12,087	14,877	15,097
<b>Total Spirits</b>	<b>50,565</b>	<b>48,955</b>	<b>48,551</b>	<b>50,131</b>	<b>51,268</b>
Domestic Wine	22,023	20,969	20,483	22,208	24,957
Domestic Wine Coolers	1,629	1,255	1,042	903	895
Imported Wine	43,966	44,951	46,375	47,671	48,328
<b>Total Wine</b>	<b>67,618</b>	<b>67,175</b>	<b>67,900</b>	<b>70,782</b>	<b>74,180</b>
Domestic Beer	41,697	43,006	45,654	49,584	54,713
Domestic Beer Coolers	43	36	22	27	20
Imported Beer	30,224	24,966	31,012	35,873	39,021
<b>Total Beer</b>	<b>71,964</b>	<b>68,008</b>	<b>76,688</b>	<b>85,484</b>	<b>93,754</b>
<b>Total Domestic</b>	<b>104,516</b>	<b>102,846</b>	<b>103,665</b>	<b>107,976</b>	<b>116,756</b>
<b>Total Imported</b>	<b>85,631</b>	<b>81,292</b>	<b>89,474</b>	<b>98,421</b>	<b>102,446</b>
<b>TOTAL</b>	<b>190,147</b>	<b>184,138</b>	<b>193,139</b>	<b>206,397</b>	<b>219,202</b>

(values in 000s litres)

PRODUCT TYPE	1993	1994	1995	1996	1997
Sales by Ontario Winery Retail Stores	9,799	9,999	11,960	13,164	14,411
Sales by Brewers Retail & On-site Brewery Stores	670,018	665,277	670,494	670,539	653,106

Note: LCBO beer sales figures include LCBO sales to Brewers Retail Inc. The 1997 figures for Sales by Brewers Retail and On-site brewery stores are unaudited and understate total sales due to eight brewers not reporting financial statements at the time of publication.

### LCBO SALES VOLUME BY PRODUCT TYPE: 1993-1997



## SALES VALUE

### LCBO SALES

(values in \$000s)

PRODUCT TYPE	1993	1994	1995	1996	1997
Domestic Spirits	730,965	698,695	678,101	671,080	680,092
Domestic Spirit Coolers	25,073	26,709	26,725	22,148	27,893
Imported Spirits	286,124	285,478	303,441	340,638	354,929
<b>Total Spirits</b>	<b>1,042,162</b>	<b>1,010,882</b>	<b>1,008,267</b>	<b>1,033,866</b>	<b>1,062,914</b>
Domestic Wine	145,536	143,270	143,105	158,888	178,563
Domestic Wine Coolers	6,056	4,663	3,739	3,347	3,209
Imported Wine	379,358	390,427	410,573	435,845	469,803
<b>Total Wine</b>	<b>530,950</b>	<b>538,360</b>	<b>557,417</b>	<b>598,080</b>	<b>651,575</b>
Domestic Beer	119,856	123,599	131,348	145,816	160,544
Domestic Beer Coolers	135	116	69	87	67
Imported Beer	86,893	73,641	90,143	107,275	118,567
<b>Total Beer</b>	<b>206,884</b>	<b>197,356</b>	<b>221,560</b>	<b>253,178</b>	<b>279,178</b>
<b>Total Domestic</b>	<b>1,027,621</b>	<b>997,052</b>	<b>983,087</b>	<b>1,001,366</b>	<b>1,050,368</b>
<b>Total Imported</b>	<b>752,375</b>	<b>749,546</b>	<b>804,157</b>	<b>883,758</b>	<b>943,299</b>
<b>Total Non-Liquor</b>	<b>2,497</b>	<b>2,553</b>	<b>2,201</b>	<b>2,059</b>	<b>3,124</b>
<b>TOTAL</b>	<b>1,782,493</b>	<b>1,749,151</b>	<b>1,789,445</b>	<b>1,887,183</b>	<b>1,996,791</b>

(values in \$000s)

PRODUCT TYPE	1993	1994	1995	1996	1997
Sales by Ontario Winery Retail Stores	63,107	68,317	83,369	95,227	106,257
Sales by Brewers Retail	1,779,453	1,754,761	1,792,638	1,809,030	1,949,845

Note: Sales values listed above for the LCBO and Ontario Winery Retail Stores consist of net sales. Sales values for Brewers Retail Inc. consist of net sales plus GST.

### LCBO SALES VALUE BY PRODUCT TYPE: 1993-1997



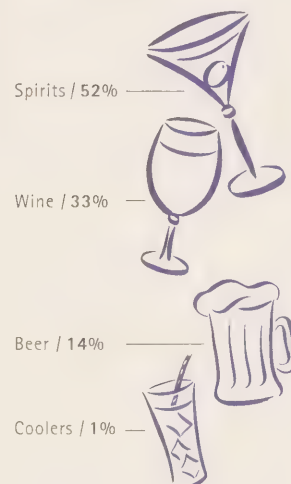
## SHARE OF SALES

(by category)

### SHARE OF VOLUME SALES



### SHARE OF DOLLAR SALES



## PRODUCT LISTINGS

	1993	1994	1995	1996	1997
<b>DOMESTIC</b>					
Spirits	469	450	379	352	361
Wine	439	431	457	455	437
Beer	252	289	311	316	295
<b>IMPORTED</b>					
Spirits	267	279	276	292	315
Wine	804	806	874	873	839
Beer	71	81	92	89	102
Total Regular Listings	2,302	2,336	2,389	2,377	2,349
Vintages Wines, Spirits and Beer	1,287	1,223	1,987	2,368	2,744
Duty-Free Listings	175	170	182	207	205
Consignment Warehouse and Private Stock	3,244	3,106	3,515	4,249	4,573
<b>Total Product Listings</b>	<b>7,008</b>	<b>6,835</b>	<b>8,073</b>	<b>9,201</b>	<b>9,871</b>

Note: Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

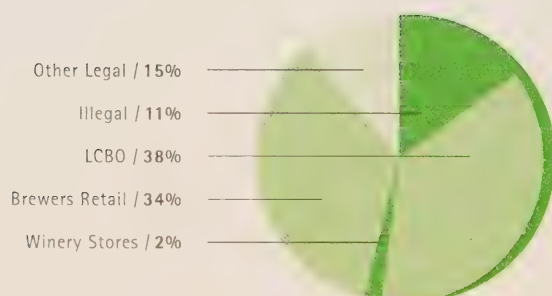
## SALES CHANNEL SUMMARY

(value in \$000s)

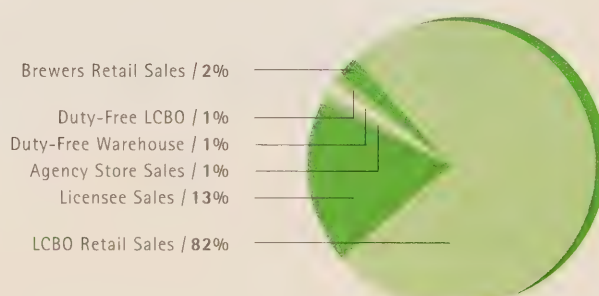
	1993	1994	1995	1996	1997
LCBO Total Sales	2,096,176	2,054,991	2,101,952	2,215,523	2,342,998
Brewers Retail Total Sales	1,937,255	1,910,584	1,951,825	2,060,219	2,075,664
Winery Retail Stores Total Sales	75,097	81,297	99,233	113,320	126,446
<b>OTHER CHANNELS:</b>					
Legal	411,122	352,746	334,139	280,559	799,332
Homemade	113,568	111,983	113,930	127,829	138,531
De-alcoholized Beer	14,216	15,069	19,600	22,540	24,140
Illegal	753,879	795,097	785,076	774,574	644,472
<b>Grand Total</b>	<b>5,401,313</b>	<b>5,321,767</b>	<b>5,405,755</b>	<b>5,594,564</b>	<b>6,151,583</b>

Note: All figures shown are gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail and Winery Retail Stores data were provided by the Brewers of Ontario and individual winery retail stores. LCBO and Brewers Retail figures are slightly overstated due to reciprocal sales included in the individual totals. These are excluded in the Value by Sales Channel chart.

### VALUE BY SALES CHANNEL



### LCBO VALUE BY SALES CHANNEL

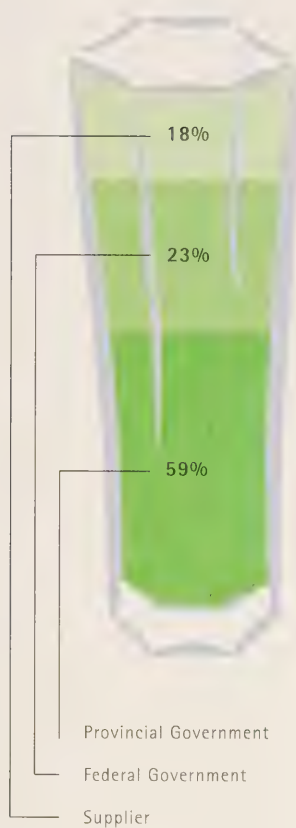




## RETAIL PRICE BREAKDOWNS (1997)

### REVENUE DISTRIBUTION

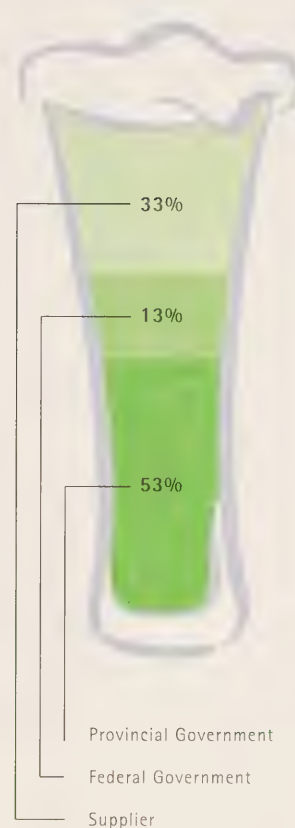
#### DOMESTIC SPIRITS



#### DOMESTIC WINE



#### DOMESTIC BEER



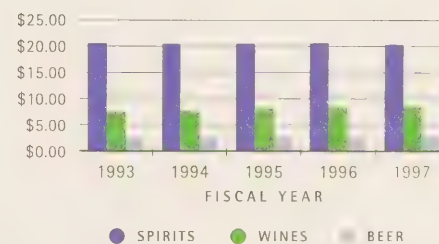
## AVERAGE LCBO RETAIL PRICES

PRODUCT TYPE	1993	1994	1995	1996	1997
Spirits	\$20.61	\$20.65	\$20.77	\$20.62	\$20.65
Wine	\$7.85	\$8.01	\$8.21	\$8.45	\$8.67
Beer	\$2.87	\$2.90	\$2.89	\$2.96	\$3.03
Average Transaction					
Value Per Customer	\$21.86	\$22.00	\$22.43	\$23.33	\$22.89

Note: Average prices are exclusive of Ontario Retail Sales Tax and the Goods and Services Tax.

## AVERAGE RETAIL PRICES

### PER LITRE: 1993-1997



## LCBO SALES VOLUME BY CATEGORY

CATEGORY	PRODUCT CATEGORY SHARE				
	1993	1994	1995	1996	1997
<b>Canadian Spirits</b>					
Canadian Whisky	41.1%	40.0%	41.3%	40.7%	39.9%
Canadian Rum	18.1%	18.0%	18.7%	18.7%	18.4%
Canadian Vodka	14.8%	15.1%	15.9%	16.6%	17.1%
Spirit Coolers	13.9%	15.1%	13.1%	13.3%	15.4%
Canadian Dry Gin	4.0%	3.9%	3.9%	3.6%	3.2%
Other	8.2%	7.8%	7.1%	7.2%	6.1%
<b>Imported Spirits</b>					
Scotch	30.5%	29.9%	26.1%	23.3%	23.0%
Liqueur	17.5%	17.1%	17.3%	16.6%	17.9%
Miscellaneous Liquors	14.4%	14.6%	13.5%	12.7%	11.9%
Vodka	11.1%	11.3%	11.0%	10.4%	11.0%
French Brandy	9.7%	9.8%	8.6%	8.0%	8.0%
Spirit Coolers	n.a.	n.a.	8.4%	11.1%	10.1%
Other	16.7%	17.2%	15.0%	17.8%	18.1%
<b>Canadian Wines</b>					
White Table	58.8%	59.6%	58.5%	56.1%	51.3%
Red Table	11.4%	12.6%	14.6%	17.0%	18.3%
7% Sparkling	7.3%	7.1%	7.1%	6.8%	6.3%
Sherry	7.2%	7.0%	6.7%	5.8%	5.0%
Wine Coolers	6.9%	5.7%	4.8%	3.9%	3.5%
Other	8.3%	8.1%	8.3%	10.4%	15.6%
<b>Imported Wines</b>					
White Table	58.5%	56.2%	53.7%	50.4%	46.7%
Red Table	29.0%	31.4%	34.0%	36.6%	39.0%
Champagne	4.1%	3.8%	3.8%	3.7%	3.7%
Sherry	2.2%	2.2%	2.0%	2.2%	2.2%
Other	6.1%	6.4%	6.6%	7.1%	8.4%
<b>Canadian Beer</b>					
Ontario Beer	97.4%	96.4%	95.4%	95.8%	94.3%
Other Canadian Beer	2.6%	3.6%	4.6%	4.2%	5.7%
<b>Imported Beer</b>					
U.S. Beer	63.9%	48.6%	48.6%	45.9%	42.8%
Other Imported Beer	35.6%	50.9%	50.9%	53.7%	55.9%
Saké	0.5%	0.5%	0.5%	0.4%	0.3%

## DETAILED SALES OF WINE BY VOLUME AND VALUE

LCBO sales only.

### VOLUME

(000s litres)

PRODUCT TYPE	1993	1994	1995	1996	1997
Red Wine	15,089	16,474	18,345	20,911	23,106
White Wine	38,843	37,750	36,793	36,313	35,226
Rosé Wine	596	599	605	697	768
Sparkling Wine	4,361	4,028	3,959	3,989	4,035
Fortified Wine	4,105	3,892	3,810	3,764	3,602
Wine Coolers	1,629	1,255	1,042	903	1,094
Other Wine	1,627	1,831	1,987	2,894	4,967
VQA Wines	1,285	1,485	1,200	1,660	2,494

### VALUE

(\$000s)

PRODUCT TYPE	1993	1994	1995	1996	1997
Red Wine	127,971	142,342	163,030	190,371	223,586
White Wine	285,286	280,849	280,061	284,955	287,892
Rosé Wine	4,655	4,788	4,886	5,583	6,253
Sparkling Wine	44,016	41,855	41,840	42,161	44,099
Fortified Wine	33,506	32,627	32,648	33,388	33,143
Wine Coolers	6,043	4,655	3,740	3,342	4,923
Other Wine	13,297	14,897	15,000	21,453	31,160
VQA Wines	12,885	15,339	16,446	20,075	27,671

Note: VQA wine sales are reported as a separate consolidated figure and also within each product category. Sales figures of wine by volume and value exclude Private Stock sales.



## LCBO SALES BY COUNTRY OF ORIGIN - VOLUME AND VALUE

### SPIRITS

COUNTRY	LITRES	NET VALUE
Canada	36,145,988	704,924,896
Great Britain	4,484,360	119,302,308
United States	2,908,893	38,055,911
France	1,702,666	53,420,304
Ireland	1,244,320	32,292,286
Italy	1,001,861	22,391,460
Sweden	902,862	20,368,473
Mexico	793,149	20,063,165
Finland	396,297	8,612,516
Barbados	211,078	4,654,954
Russian Federation	202,473	4,487,662
Jamaica	187,423	4,667,008
Germany	180,881	4,486,545
Greece	138,338	3,010,809
Poland	122,763	2,666,837
Netherlands	90,899	1,732,593
South Africa	83,965	1,731,002
Switzerland	75,859	2,535,481
Spain	54,222	1,182,745
Portugal	25,528	684,438
Hungary	25,255	497,278
Guyana	24,116	564,491
Bermuda	20,106	644,911
Bahamas	16,280	337,321
Croatia	16,096	402,014
Denmark	14,161	342,048
Lebanon	13,389	312,767
Grenada	11,169	278,267
Cuba	7,399	183,844
Belgium	6,578	209,322

continued above

### Spirits continued

COUNTRY	LITRES	NET VALUE
Austria	4,211	156,524
People's Republic Of China	3,816	128,199
Puerto Rico	2,536	66,200
Israel	2,510	52,023
Trinidad	2,492	54,431
Chile	2,333	55,881
Macedonia	2,303	54,096
Japan	1,909	29,776
Cyprus	1,644	29,054
Ukraine	1,415	31,628
Philippines	664	13,868
Syrian Arab Republic	546	11,912
Norway	479	13,458
Estonia	267	6,005
Czech Republic	248	5,836
Peru	106	2,802
India	20	215
Bulgaria	2	50
Martinique	1	151
<b>Total</b>	<b>51,135,877</b>	<b>1,055,755,765</b>

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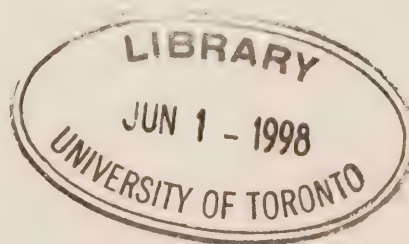
# Statistical Insert for LCBO Annual Report,

Fiscal 1996-1997

## PRODUCT LISTINGS

<b>DOMESTIC</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
Canadian Whisky	126	125	103	99	94
Canadian Blended Rums	90	90	69	64	68
Canadian Gin	30	26	16	14	17
Canadian Vodka	57	52	50	47	45
Canadian Brandy	4	4	4	4	6
Canadian Blended Brandy	12	12	12	14	8
Canadian Spirit Coolers	21	21	31	25	38
Fruit Spirits	6	4	3	3	1
Miscellaneous Liquors	13	11	7	6	26
Canadian Liqueurs	92	87	66	57	47
Ontario Wines	409	400	420	421	403
Ontario Wine Coolers	15	15	14	11	7
Other Canadian Wines	11	10	16	14	10
Canadian Cider	4	6	7	9	17
Canadian Beer (includes Beer Coolers)	252	289	311	316	295
Alcohol	6	6	6	6	0
Miniatures	9	9	9	10	8
Bitters	3	3	3	3	3
<b>IMPORTED</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
Scotch Whisky	66	68	63	58	69
Irish Whiskey	3	3	4	4	3
American Whiskey	5	5	5	5	10
Gin	12	15	16	16	10
Rum	12	13	10	9	11
Vodka	20	20	19	22	23
Tequila	7	6	9	8	11
Brandy	55	55	31	43	45
Fruit Spirits	2	2	10	2	2
Miscellaneous Liquors	2	13	7	4	11
Liqueurs	60	59	73	77	76
Wines	804	806	874	873	839
Beer and Saké	71	81	92	89	102
Miniatures	11	11	12	19	24
Coolers	0	3	6	19	12
Bitters	12	6	11	6	8
<b>Total Regular Listings</b>	<b>2,302</b>	<b>2,336</b>	<b>2,389</b>	<b>2,377</b>	<b>2,349</b>
<b>Vintages Wines, Spirits and Beer</b>	<b>1,287</b>	<b>1,223</b>	<b>1,987</b>	<b>2,368</b>	<b>2,744</b>
<b>Duty-Free Listings</b>	<b>175</b>	<b>170</b>	<b>182</b>	<b>207</b>	<b>205</b>
<b>Consignment Warehouse and Private Stock</b>	<b>3,244</b>	<b>3,106</b>	<b>3,515</b>	<b>4,249</b>	<b>4,573</b>
<b>Total Product Listing</b>	<b>7,008</b>	<b>6,835</b>	<b>8,073</b>	<b>9,201</b>	<b>9,871</b>

Note: Consignment Warehouse and Private Stock product listings are estimates based on invoices produced by Specialty Services.





## SALES CHANNEL SUMMARY

(values in \$000s)

<b>LCBO</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
Retail Sales	1,785,539	1,731,071	1,740,387	1,827,840	1,923,750
Licensee Sales	271,684	276,306	288,956	297,233	314,652
Agency Store Sales	15,863	15,824	17,005	20,329	22,643
Duty-Free/Warehouse	10,409	12,137	12,640	15,108	17,349
Duty-Free/LCBO	9,120	8,979	9,869	11,425	12,156
BRI Sales	851	7,866	29,729	40,150	48,920
Other Sales	2,710	2,808	3,366	3,438	3,528
<b>Total</b>	<b>2,096,176</b>	<b>2,054,991</b>	<b>2,101,952</b>	<b>2,215,523</b>	<b>2,342,998</b>
<b>BREWERS RETAIL</b>					
Retail and Licensee Sales	1,937,255	1,910,584	1,951,825	2,060,219	2,075,664
<b>WINERY RETAIL STORES</b>					
Retail Sales	75,097	81,297	99,233	113,320	126,446
<b>OTHER CHANNELS</b>					
<b>Legal:</b>					
Cross-Border Exempt	235,210	171,703	147,538	148,305	141,372
Cross-Border Declared	3,064	2,346	1,599	2,333	2,524
Brew Pubs	1,951	2,570	2,976	2,496	1,467
Wine Pubs	276	422	489	448	437
U-Brew-Beer	137,859	141,305	142,413	110,771	151,482
U-Brew-Wine (U-Vints)	32,762	34,400	39,124	16,206	502,050
<b>Total</b>	<b>411,122</b>	<b>352,746</b>	<b>334,139</b>	<b>280,559</b>	<b>799,332</b>
<b>Homemade:</b>					
Wine	99,782	101,279	99,991	112,855	122,409
Beer	13,786	10,704	13,939	14,974	16,122
<b>Total</b>	<b>113,568</b>	<b>111,983</b>	<b>113,930</b>	<b>127,829</b>	<b>138,531</b>
<b>De-alcoholized Beer</b>	<b>14,216</b>	<b>15,069</b>	<b>19,600</b>	<b>22,540</b>	<b>24,140</b>
<b>Illegal:</b>					
Smuggling	454,311	549,132	534,132	490,372	421,443
Wine Manufacturing	299,568	245,965	250,944	284,202	223,029
<b>Total</b>	<b>753,879</b>	<b>795,097</b>	<b>785,076</b>	<b>774,574</b>	<b>644,472</b>
<b>GRAND TOTAL</b>	<b>5,401,313</b>	<b>5,321,767</b>	<b>5,405,755</b>	<b>5,594,564</b>	<b>6,151,583</b>

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail Inc. and Winery Retail Stores sales data were supplied by the Brewers of Ontario and individual wineries.

## RETAIL PRICE BREAKDOWNS

### SPIRITS

(Examples as at March 31, 1997, for 750 mL bottle in Canadian dollars)

	IMPORTED U.S.	IMPORTED NON-U.S.	DOMESTIC
Payment to Supplier	\$3.0400	\$3.3600	\$3.3800
Federal Excise Tax	\$3.3198	\$3.3198	\$3.3198
Federal Import Duty	\$0.0000	\$0.0217	\$0.0000
Freight	\$0.2775	\$0.1640	\$0.0466
<b>Total Landed Cost</b>	<b>\$6.6373</b>	<b>\$6.8655</b>	<b>\$6.7464</b>
LCBO Markup	\$9.6307	\$9.9550	\$9.3100
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0252	\$0.0127	\$0.0168
<b>Basic Price</b>	<b>\$16.60</b>	<b>\$17.14</b>	<b>\$16.38</b>
Goods and Services Tax	\$1.16	\$1.20	\$1.15
Provincial Retail Sales Tax	\$1.99	\$2.06	\$1.97
<b>Consumer Price</b>	<b>\$19.75</b>	<b>\$20.40</b>	<b>\$19.50</b>
<b>Revenue Distribution</b>			
Supplier (including freight)	\$3.32	\$3.52	\$3.43
Government of Canada	\$4.48	\$4.54	\$4.47
Government of Ontario	\$11.95	\$12.34	\$11.60

### WINES

(Examples as at March 31, 1997, for 750 mL bottle in Canadian dollars)

	IMPORTED U.S.	IMPORTED NON-U.S.	DOMESTIC 100% ONTARIO
Payment to Supplier	\$2.4500	\$2.4500	\$2.4500
Federal Excise Tax	\$0.3842	\$0.3842	\$0.3842
Federal Import Duty	\$0.0030	\$0.0305	\$0.0000
Freight	\$0.1669	\$0.2038	\$0.0000
<b>Total Landed Cost</b>	<b>\$3.0041</b>	<b>\$3.0685</b>	<b>\$2.8342</b>
LCBO Markup	\$1.8235	\$1.9853	\$1.4965
LCBO Wine Levy	\$1.1250	\$1.1250	\$1.1250
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0006	\$0.0244	\$0.0275
<b>Basic Price</b>	<b>\$6.26</b>	<b>\$6.51</b>	<b>\$5.79</b>
Goods and Services Tax	\$0.44	\$0.46	\$0.41
Provincial Retail Sales Tax	\$0.75	\$0.78	\$0.70
<b>Consumer Price</b>	<b>\$7.45</b>	<b>\$7.75</b>	<b>\$6.90</b>
<b>Revenue Distribution</b>			
Supplier (including freight)	\$2.62	\$2.65	\$2.45
Government of Canada	\$0.83	\$0.87	\$0.79
Government of Ontario	\$4.00	\$4.23	\$3.66

## BEER

*(Examples as at March 31, 1997, for a case of 24 x 341 mL bottles in Canadian dollars)*

	IMPORTED U.S.	IMPORTED NON-U.S.	DOMESTIC
Payment to Supplier	\$8.4072	\$8.4895	\$9.2968
Federal Excise Tax	\$2.2903	\$2.2903	\$2.2903
Federal Import Duty	\$0.0000	\$0.2373	\$0.0000
Freight	\$0.5000	\$1.2000	\$0.4000
<b>Total Landed Cost</b>	<b>11.1975</b>	<b>12.2171</b>	<b>11.9871</b>
LCBO In-store COS	\$4.9595	\$4.9595	\$4.9595
LCBO Out-of-store COS	\$1.3422	\$1.3422	\$0.0000
LCBO Markup	\$4.0920	\$4.0920	\$4.0920
LCBO Bottle Levy	\$1.4404	\$1.4404	\$1.4404
LCBO Environment Fee	\$0.0000	\$0.0000	\$0.0000
LCBO Rounding Revenue	\$0.0356	\$0.0244	\$0.0000
<b>Basic Price</b>	<b>\$23.07</b>	<b>\$24.08</b>	<b>\$22.48</b>
Goods and Services Tax	\$1.61	\$1.68	\$1.57
Provincial Retail Sales Tax	\$2.77	\$2.89	\$2.70
Container Deposit	\$2.40	\$2.40	\$2.40
<b>Consumer Price</b>	<b>\$29.85</b>	<b>\$31.05</b>	<b>\$29.15</b>
<b>Revenue Distribution</b>			
Supplier (including freight)	\$8.91	\$9.69	\$9.70
Government of Canada	\$3.90	\$4.21	\$3.86
Government of Ontario	\$14.64	\$14.75	\$13.19
Container Deposit	\$2.40	\$2.40	\$2.40

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.



## ELEVEN-YEAR FINANCIAL PERFORMANCE REVIEW

(values in \$000s)

	1997	1996	1995	1994	1993
<b>STATEMENT OF EARNINGS</b>					
Sales and Other Income	\$2,013,873	\$1,909,804	\$1,808,518	\$1,764,731	\$1,786,479
Cost of Sales	\$988,386	\$919,268	\$858,190	\$832,106	\$841,060
Gross Profit	\$1,025,487	\$990,536	\$950,328	\$932,625	\$945,419
Per Cent	50.92%	51.87%	52.55%	52.85%	52.92%
Operating Expenses	\$324,457	\$323,819	\$313,029	\$333,716	\$332,953
Net Income	\$701,030	\$666,717	\$637,299	\$598,909	\$612,466
<b>STATEMENT OF CASH FLOW</b>					
Cash Flow from Operation	\$723,197	\$687,663	\$655,198	\$619,979	\$635,298
Change in Working Capital	\$49,819	\$9,659	\$5,473	(\$15,824)	(\$8,694)
Cash Used for Investing Activities	(19,424)	(\$26,256)	(\$26,895)	(\$14,753)	(\$21,075)
Cash Used for Provincial Transfers	(\$730,000)	(\$680,000)	(\$630,000)	(\$585,000)	(\$615,000)
Decrease/Increase in Cash During the Year	\$23,592	(\$8,934)	\$3,776	\$4,402	(\$9,471)
<b>FINANCIAL POSITION</b>					
Current Assets	\$256,209	\$239,516	\$229,541	\$201,204	\$192,955
Current Liabilities	\$203,647	\$160,727	\$132,159	\$92,813	\$104,789
Working Capital	\$52,562	\$78,789	\$97,382	\$108,391	\$88,166
Fixed Assets	\$132,037	\$134,780	\$129,470	\$120,474	\$126,790
Total Assets	\$388,246	\$374,296	\$359,011	\$321,678	\$319,745
<b>FINANCIAL RATIOS</b>					
Profit Margin	35.11%	35.33%	35.61%	34.24%	34.36%
Return on Shareholders' Equity	352.13%	302.76%	285.53%	269.89%	281.94%
Current Ratio	1.26	1.49	1.74	2.17	1.84
<b>STATISTICS</b>					
Inventory Turnover	5.02	5.07	4.92	5.02	4.70
Number of Permanent Employees	2,828	2,803	2,824	2,743	3,100
Sales per Employee	706,079	673,273	633,656	637,678	574,998
Number of Stores	595	596	597	600	611
Number of Regular Products Listed	2,349	2,377	2,389	2,336	2,302

Note: Inventory Turnover figures are restated to reflect a 13-period average.

1992	1991	1990	1989	1988	1987
<b>STATEMENT OF EARNINGS</b>					
\$1,833,386	\$1,936,710	\$2,006,975	\$1,930,319	\$1,867,684	\$1,775,296
\$851,539	\$967,221	\$1,012,938	\$994,294	\$968,472	\$904,122
\$981,847	\$969,489	\$994,037	\$936,025	\$899,212	\$871,174
53.55%	50.06%	49.53%	48.49%	48.15%	49.07%
\$332,439	\$326,682	\$311,707	\$275,580	\$258,185	\$233,980
\$652,458	\$652,669	\$692,083	\$664,124	\$640,827	\$639,587
<b>STATEMENT OF CASH FLOW</b>					
\$675,162	\$672,558	\$707,223	\$675,892	\$650,995	\$648,766
\$6,162	\$48,775	(\$29,481)	\$29,933	(\$23,430)	(\$29,020)
(\$25,754)	(\$29,751)	(\$23,784)	(\$15,447)	(\$9,968)	(\$11,572)
(\$675,000)	(\$650,000)	(\$640,000)	(\$645,000)	(\$635,000)	(\$645,000)
(\$19,430)	\$41,582	\$13,958	\$45,378	(\$17,403)	(\$36,826)
<b>FINANCIAL POSITION</b>					
\$207,155	\$231,212	\$219,752	\$179,400	\$192,904	\$195,215
\$118,212	\$116,677	\$98,024	\$101,111	\$130,060	\$138,398
\$88,943	\$114,535	\$121,728	\$78,289	\$62,844	\$56,817
\$130,564	\$131,161	\$122,322	\$118,008	n.a.	n.a.
\$337,719	\$362,373	\$342,074	\$297,408	n.a.	n.a.
<b>FINANCIAL RATIOS</b>					
36.04%	33.96%	34.70%	34.54%	34.45%	36.19%
280.50%	266.53%	314.34%	n.a.	n.a.	n.a.
1.75	1.98	2.24	1.77	1.48	1.41
<b>STATISTICS</b>					
4.72	4.79	4.88	5.56	4.99	5.04
3,233	3,305	3,484	3,396	3,460	3,348
560,185	581,445	572,401	566,113	537,610	527,880
618	621	623	626	623	617
2,390	2,570	2,825	2,974	2,814	2,988





## NOTES TO FINANCIAL STATEMENTS

continued

### 6. PENSION PLAN

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund), established by the Province of Ontario.

The *Ontario Public Service Employees' Union Pension Act, 1994* provides for a reduction of the employer's contributions to the PSPF and the OPSEU Pension Fund for each of the three fiscal years ending 1995-1997. For the current year, the impact of these reductions on the Board's pension expense was a reduction of \$10.7 million (1996 - \$11.8 million).

The Board's expense related to the PSPF and the OPSEU Pension Fund for the year was \$2.5 million (1996 - \$2.1 million) and is included in Costs and Expenses in the Statement of Income and Retained Income.

### 7. CONTINGENT LIABILITIES

In April, 1990, major airlines commenced legal action against the Board contesting the Board's right to collect mark-up on any liquor which is imported into Ontario by the airlines. A lower court judgment ruled against the Board but this judgment was overturned by an Ontario Appeal Court decision which rejected the airlines' claim. However, the airlines appealed to the Supreme Court of Canada, which has heard the appeal and made its decision. The decision of June 26, 1997 ruled in favour of the Board's right to collect mark-ups.

An association of privately-owned duty-free stores that the Board sells liquor to has also commenced legal proceedings against the Board, contesting the Board's right to collect mark-ups on liquor. An unfavourable judgment for the Board could result in a possible loss of \$32.2 million (1996 - \$26.4 million). This case has been on hold pending the outcome

of the airlines' cases. Any judgment against the Board will be accounted for in the year the case is settled. Given that the Supreme Court of Canada has ruled that the Board has the right to collect mark-ups on any liquor that is imported into Ontario by the airlines, it is very likely that this case will be abandoned.

### 8. TERMINATION PAYMENTS

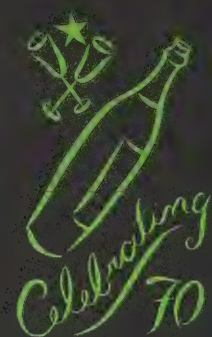
The Board is required to make termination payments to eligible employees when they retire or resign. At March 31, 1997, the accrued termination payments totalled \$9.51 million (1996 - \$9.55 million).

### 9. HEDGING

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 1997, the Board had \$950,000 in forward foreign exchange contracts outstanding for French francs, based on the notional amounts of the contracts. All contracts mature in fiscal year 1998.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.



Seventy Years of Serving You Responsibly

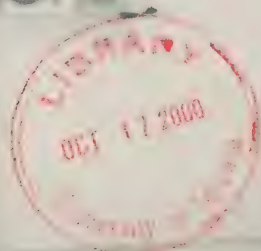


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Publications

LCBO ANNUAL REPORT 1997-1998

# Our third straight record year





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## LCBO BOARD OF DIRECTORS DURING FISCAL 1997-1998

Andrew S. Brandt  
*Chair and Chief Executive Officer*

Chantal Haas  
*Vice Chair; Member, Audit Committee*

Dick Dolphin  
*Director; Chair, Audit Committee*

John C. Hopper  
*Director*

Merle A. Jacobs  
*Director*

John S. Lacey  
*Director; Member, Audit Committee*

Richard Ling  
*Director*

Rajula Atherton  
*Director; Chair, Audit Committee  
(term expired October 6, 1997)*

Orrin O. Benn  
*Director; Member, Audit Committee  
(term expired September 7, 1997)*

M. Sharon Broderick  
*Director  
(term expired September 14, 1997)*

Vernon C. Parrington  
*Director; Member, Audit Committee  
(term expired September 7, 1997)*

Larry C. Gee  
*Executive Vice President*

## LETTER OF TRANSMITTAL

The Hon. David H. Tsubouchi  
Minister of Consumer and  
Commercial Relations

Dear Minister,  
I have the honour to present to you  
the 1997-98 Annual Report of the  
Liquor Control Board of Ontario.

Respectfully submitted,



Andrew S. Brandt  
Chair and CEO

The LCBO wishes to thank the  
Office of the Provincial Auditor and  
the Audit Committee of the Board  
of Directors for their assistance in  
preparing this document.

Produced by LCBO Corporate  
Communications.

Financial information prepared  
by LCBO Financial Planning &  
Economic Development. French  
adaptation by LCBO French  
Language Services.

Ce rapport est également publié  
en français sous le titre : Rapport  
annuel de la LCBO 1997-98.

Stock content: 50% per cent total  
recovered fibre, 20% per cent post-  
consumer waste

### On the cover:

The LCBO's new-look IMAGE store  
on Avenue Road in Toronto.

# The LCBO at a glance

**The Liquor Control Board of Ontario (LCBO) regulates the production, importation, distribution and sale of alcoholic beverages in Ontario.**

The LCBO is the largest single retailer of beverage alcohol in the world, buying wine, spirits and beer from more than 60 countries for Ontario consumers and licensees.

To provide this service, the LCBO operates five regional warehouses that supply 596 stores across Ontario. Through this integrated distribution and retailing network, more than 5,000 quality products are available to consumers.

The LCBO operates four stand-alone Vintages stores, which offer consumers a wide selection of fine wines, spirits and beer. Vintages products are also available in seven Vintages boutiques and over 140 corners in regular LCBO stores. They can also be ordered through any LCBO outlet. Some 500 additional premium products can be ordered from each edition of the *Vintages Classics Catalogue*.

Customers can also obtain many other products not regularly listed in Ontario through the LCBO Private Stock ordering program.

In partnership with the LCBO, established retailers operate 97 agency stores in communities without large enough population bases to support regular LCBO stores.

For air travellers, the LCBO operates duty-free stores at Terminals 1 and 2 at Toronto's Pearson International Airport.

The LCBO also regulates the sale of products through 428 Brewers Retail stores, 36 on-site brewery stores, 335 winery stores, three distillery stores, 11 land border-point duty-free stores, and duty-free operations at Pearson International Airport Terminal 3 and at Ottawa International Airport.



*Our automated Durham Warehouse handles more than 30,000,000 cases of beverage alcohol a year. Case-handling costs have dropped considerably at Durham and our four other warehouses over the last five years, even as the number of cases handled per hour has increased.*

In the interests of consumer protection, the LCBO conducts approximately 200,000 tests on 11,000 different alcoholic beverages each year. This Quality Assurance testing ensures that all products sold by the LCBO, Ontario winery stores and Brewers Retail stores comply with the federal *Food and Drug Act*, as well as the LCBO's high standards for quality and taste.

**For further information about LCBO products and services, call the LCBO toll-free Infoline at 1-800-ONT-LCBO (668-5226). In Metropolitan Toronto, call (416) 365-5900 or visit the LCBO's two Internet sites: [www.lcbo.com](http://www.lcbo.com) (our corporate home page), and [www.vintages.com](http://www.vintages.com) (the Vintages home page).**

# How to read this report

**Under the *Liquor Control Act*, we're required to prepare an annual report for the Minister of Consumer and Commercial Relations. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. Like the annual report of a corporation, this document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year. We've tried to make the report easy to use and understand by:**

- › using plain language
- › including glossaries to explain technical and financial terms
- › adding a new section, *How to Read this Report*.

This section expands on the table of contents to help you get the most from this report. We've also included two glossaries for easy reference. The first is a list of technical terms that we use at the LCBO to describe our operations; the second explains financial terms used in the text.

*LCBO at a Glance* gives you a quick overview of the LCBO – its mandate, number of stores and different types of retail outlets, as well as its distribution network.

*Corporate Governance* tells you about the structure of the LCBO, including the role of the Board of Directors, committee titles and mandates, and an explanation of the relationship between the LCBO and the Ontario Government.

*Highlights 1997-1998* describes noteworthy accomplishments for the fiscal year.

*Chair's Remarks* provides context and perspective on the details elsewhere in the annual report. Look here for information about:

- › LCBO's strategic direction
- › contributing factors to successful initiatives
- › an overview of the performance numbers
- › any anticipated challenges ahead.

*Beyond the Numbers* contains a detailed discussion of the LCBO's financial performance. This is equivalent to the management's discussion and analysis section of a private corporation's annual report. Look here to find:

- › how LCBO sales compare to other liquor jurisdictions
- › how sales were distributed by retail region
- › which product categories showed the strongest growth and why
- › and explanations of items in the income statement, balance sheet, and statement of changes in financial position.

*Board of Directors* shows you pictures and profiles of our Directors.

*LCBO Useful Facts* is a compilation of interesting facts and figures about LCBO operations.

*Income Statement, Balance Sheet and Statement of Changes in Financial Position* contain the financial statistics for the 1997-98 fiscal year.

*Statistical Insert* contains more detailed financial data on LCBO operations, including 11-year trends.



# Glossary of LCBO terms

**Agency stores:** operated by established retailers in communities without the population to support regular LCBO or Brewers Retail stores. They carry 100 or more products and have no standard design format. Preference is given to operators who can offer chilled products and attractive displays. At the end of fiscal 1997-98, there were 97 agency stores, all but nine in Northern Ontario.

**Airport duty-free shop:** a retail shop located at an airport in Ontario servicing outbound international travelers, licensed by Revenue Canada to sell items free of applicable duties, taxes, markup and levies, and authorized by the LCBO to sell beverage alcohol. The LCBO also owns and operates duty-free shops at Terminals 1 and 2 at Toronto's Pearson International Airport. The duty-free shops at Terminal 3 and the Ottawa International Airport are regulated by the LCBO, but privately operated.

**Beer cold room:** the in-store refrigerated section of an LCBO combination store. Of the 177 LCBO combo stores, 66 now have beer cold rooms.

**Beer cooler:** a mixture of beer and soft drinks or fruit juices, generally with a maximum alcohol concentration of 6.9 per cent alcohol by volume.

**Brewers Retail Inc. (BRI):** a private company owned by three Ontario brewers (Labatt, Molson and Sleeman) authorized by the LCBO to sell domestic and foreign beer and related merchandise through 428 Brewers Retail stores located in 227 communities across Ontario.

**Brewery store (on-site):** a retail store authorized by the LCBO and operated by a brewer at its manufacturing site. There are 36 on-site brewery stores.

**BYID (Bring Your Identification) card:** a tamper-resistant photo ID card issued by the LCBO, and accepted as valid proof of age in all LCBO and Brewers Retail stores and licensed establishments. Cards can be obtained with proper identification and a \$15 fee. Applications are available at all LCBO stores.

**(BYO) Bottle-Your-Own/bulk wine store:** a pilot LCBO retail store at the Crossroads shopping centre in Toronto that offers customers the opportunity to bottle and cork wine from tanks set up in the store.

**Challenge and Refusal:** this LCBO social responsibility program in all stores helps ensure that beverage alcohol is not sold to minors, to persons who are intoxicated, or anyone making purchases on behalf of these two groups. Statistics are kept on the numbers of individuals challenged and refused service in LCBO stores.

**Check 25:** the LCBO frontline retail program whereby anyone appearing to be under the age of 25 is routinely challenged for identification.

**Classics Catalogue:** published three times a year by Vintages (two full issues and one smaller supplement). It offers some 500 different products, such as premium quality spirits, critically acclaimed wines from older vintages and sought-after selections from smaller producers and estates.

**Combination or "combo" stores:** these sell a full variety of domestic beer in every size, as well as regular LCBO products. This format originated as a customer service initiative in smaller, usually rural communities where there are no Brewers Retail stores. There are two types of combo stores: those with beer cold rooms and those without.

**Consignment Warehouse:** this program allows agents/suppliers to bring products not available in the LCBO, for sale in pre-set amounts (maximum 350 cases). Agents are responsible for finding buyers for these products; suppliers are not paid until the product is sold.

**Depots:** wholesale stores servicing licensees and beverage alcohol trade representatives. The five urban LCBO depot stores are not open to the public.

**Diplomatic discount:** discount on beverage alcohol provided by the LCBO to foreign diplomatic institutions in Ontario accredited by the federal Department of Foreign Affairs and International Trade, comparable to discounts that foreign governments provide to Canadian diplomats posted abroad.

**Distillery store (on-site):** a retail store authorized by the LCBO and operated by a distiller at its manufacturing site. There are three on-site distillery stores.

**Ethnic kiosks:** these outlets supply designated products to specific communities, such as the Chinese kiosk in Markham and the kosher kiosk in Thornhill. An Italian kiosk is planned for Hamilton.

**Flagship stores:** up to 25,000 square feet and located in larger urban centres, these stores carry a global assortment of LCBO General List and Vintages products and gifts. They also offer a complete range of LCBO customer services and special events.

**Fortified wine:** wine whose alcohol level has been "fortified" (up to 20 per cent) by the addition of spirit (e.g., port, sherry and madeira).

**Full-service stores:** up to 20,000 square feet, these stores provide customers with a complete range of LCBO products and services in easily accessible locations. They have a wide assortment of products (2,500-3,000), a gift centre, and a Vintages boutique carrying 500-800 brands. They also offer special events to suit the specific market.

**Illegally manufactured wine:** wine made by a party in Ontario for illegal sale (contrary to the *Liquor Licence Act*), rather than for personal consumption.

**IMAGE stores:** the design standard for LCBO urban stores since 1990. Design consistency gives IMAGE stores a clear corporate identity, consisting of green and gold decor package, light wood and customized signage. These stores offer 1,400-2,000 products, Vintages sections and a variety of other LCBO customer service features.

**Land border-point duty-free shop:** a retail shop located at a bridge or tunnel exit from Ontario, licensed by Revenue Canada to sell items free of applicable duties, taxes, markup and levies, and authorized by the LCBO to sell beverage alcohol. The 11 land-based border points are privately owned and regulated by the LCBO.

**LCBO Private Stock Program:** this program imports beverage alcohol products from around the globe not carried by the LCBO. Individuals can order case lots from anywhere in the world as long as the supplier will ship them to the LCBO.

**Licensee discount:** discount on beverage alcohol products to be served in licensed establishments, provided by the LCBO to parties licensed by the Alcohol and Gaming Commission of Ontario.

**Limited Time Offers (LTOs):** month-long price discounts on selected beverage alcohol products. These products are discounted by as much as 20 per cent of their regular price.

**Liquor Control Act:** provincial legislation passed in 1927 that gives the LCBO powers to control the transportation, sale and delivery of beverage alcohol in Ontario.

**Minister of Consumer and Commercial Relations:** Minister of the Government of Ontario to whom the LCBO reports as a Schedule II agency.

**Mini-stores:** at 600-3,000 square feet, located in high-traffic shopping areas, these stores are designed to service a specific customer niche and close the gap in under-serviced areas. They are often located where there is a strong retail anchor, including enclosed shopping malls. Mini-stores offer 500 of the most popular brands from the General List and Vintages.

**New IMAGE stores:** at 7,000-10,000 square feet, these stores provide customers with a wide range of LCBO products, services and special events in easily accessible locations. These stores carry 1,800-2,000 General List products and have a Vintages boutique with up to 500 brands. The colour, signage and decor also vary somewhat from the standard IMAGE store.

**Product Knowledge Correspondence Course:** a three-level employee training program that's mandatory for all LCBO retail staff. The program is also available to the public at a cost of \$80.

**Sale of space program:** provides LCBO suppliers with an opportunity to purchase display space to promote their products in LCBO IMAGE stores.

**Shop the World:** a fully integrated marketing program designed to bring excitement to the LCBO shopping experience and introduce the buying public to products we source from around the world. There are usually four or five themed promotions a year, highlighting different categories of products from our global selection. Participating stores offer tastings, recipes, contests, music, food-matching and other activities.

**SMAART (Strategies for Managing Age and Alcohol-Related Troubles):** this comprehensive LCBO training program is designed to educate staff about responsible service and related judgement calls, alcohol issues and how to handle problem customers. All LCBO employees who serve the public are required to take SMAART training.

**Spirit cooler:** a mixture of spirit and soft drinks or fruit juices, generally with a maximum alcohol concentration of 6.9 per cent alcohol by volume.

**Supply chain management:** this term applies to all components of the product ordering and delivery system from the time orders are placed with suppliers to when the product arrives on store shelves.

**U-Brew:** a privately operated retail shop (not authorized by the LCBO) that provides customers with ingredients, equipment and expertise to make their own beer at the shop.

**U-Vint/U-Ferment:** a privately operated retail shop (not authorized by the LCBO) that provides customers with ingredients, equipment and expertise to make their own wine at the shop.

**Value-adds:** bonus items attached by suppliers to a host product.

**Vintages:** the fine wine, spirits and specialty beer division of the LCBO. It offers an ever-changing assortment of premium products of unusual nature, limited production and/or ethnic interest.

**VQA:** Vintners Quality Alliance (VQA) designation awarded to Ontario and B.C. wines that meet strict wine-making and taste standards, modeled on traditional "Appellation of Origin" systems used in other wine producing countries such as France, Italy and Germany.

**Wine cooler:** a mixture of wine and soft drinks or fruit juices, generally with a maximum alcohol concentration of 6.9 per cent alcohol by volume.

**Winery retail store:** a retail store operated by an Ontario winery under an authorization from the LCBO. Due to international trade agreements, there are two types of winery retail stores: "On-site" stores at the winery that may sell only wine made by the winery at that location, and "off-site" stores that may sell only wine made by the winery. There are 335 winery retail stores in Ontario.

# Glossary

## of financial terms

**Administrative expenses:** all costs not directly associated with warehousing, merchandising and retail sales. They include finance and administration, human resources, information technology, and corporate offices.

**Balance sheet:** a financial statement showing a company's assets, liabilities, and shareholders' equity on a particular date. In a government enterprise like the LCBO, there is no shareholders' equity. The owners are the taxpayers of Ontario, and their stake in the company is represented by the significant annual contributions the LCBO makes to the government's Consolidated Revenue Fund.

**Current assets:** assets that will be used or converted to cash within one year, for example, cash, accounts receivable, and inventory.

**Current liabilities:** debts that will come due within one year.

**Current ratio:** current assets divided by current liabilities. This ratio shows the company's ability to pay its current debts from current assets.

**Gross margin rate:** margin is the difference between revenues and the cost of sales. Gross margin includes profit and other expenses. The gross margin rate is expressed as a percentage of total revenues and indicates the rate of profit on net sales. The formula is:

$$\frac{\text{Net sales} - \text{cost of goods sold}}{\text{Net sales}} \times 100$$

**Gross sales:** includes all relevant sales taxes and discounts.

**Income statement:** a financial statement showing a company's revenues, expenses and net income or profit over a given period.

**Income-to-sales ratio:** net income divided by net sales and other income. A higher ratio indicates a given amount of sales is generating more income, usually due to lower expenses.

**Inventory turnover ratio:** indicates how many times inventory is sold and replaced during a year. A rising ratio indicates goods are being sold more quickly to customers.

**Net income:** sales minus cost of goods and expenses.

**Net sales:** gross sales less federal and provincial sales taxes and any discounts (such as licensee and diplomatic discounts).

**Operational expenses:** the direct costs of operating our stores and warehouses, including related Head Office support activities.

**Statement of changes in financial position:** a financial statement showing sources and uses of cash during a given period.

**Total revenues:** gross sales and other income less discounts.

**Working capital:** funds invested in current assets, e.g., cash, accounts receivable, inventory. More working capital means there is more cash available to fund business activities.



# Corporate governance

## SERVING OUR CUSTOMERS AND STAKEHOLDERS

The mission of the Liquor Control Board of Ontario (LCBO) is to be a customer-focused and profitable retailer of beverage alcohol, a leader in promoting social responsibility in the use of alcohol, and an impartial and objective regulator of the beverage alcohol industry.

To serve the interests of our customers and stakeholders, we:

- › distribute and sell quality products at fair prices through a variety of retail formats and other sales channels, such as catalogues
- › promote the responsible use of alcohol.

The LCBO is a Schedule II Crown agency. To fulfill our responsibilities to the Government and people of Ontario, we:

- › maximize dividends to the Ontario Government
- › enhance the LCBO's value to the Government of Ontario
- › manage the LCBO's business risks.

The mission of the Liquor

Control Board of Ontario

(LCBO) is to be a customer-

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objective regulator of the

beverage alcohol industry.

## WHAT IS CORPORATE GOVERNANCE?

Corporate governance means the processes and procedures a corporation uses to direct and manage its business and affairs to enhance shareholder value. Its aim is to ensure the financial viability of the business and the corporation's positive relationship and dealings with stakeholders.

Since 1995, the Toronto and Montreal Stock Exchanges have required listed companies to disclose their corporate governance practices. As a government enterprise, we are not subject to these policies. However, we believe that effective corporate governance and accountability are essential to fulfilling our mandate, and we have included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

## WE ARE A CROWN AGENCY

The LCBO is responsible for the sale of beverage alcohol for home consumption and for distribution of beverage alcohol in Ontario. The LCBO is a Schedule II Crown agency. That means that although we are a creation of the provincial government, with powers and duties set out in the *Liquor Control Act*, we have a degree of independence from government. As a Crown agency, the LCBO must live up to the highest standards of ethics and fiduciary responsibility.

**We believe that effective corporate governance and accountability  
are essential to fulfilling our mandate.**

The roles and responsibilities of the Members of the Board and LCBO officers are established in a by-law passed by the Board.

Members of the Board are appointed by the Lieutenant Governor, through Order-in-Council, on the recommendation of the Premier and Minister of Consumer and Commercial Relations.

Here we have provided the highlights of our corporate governance practices. If you would like the complete terms of reference for our Board, committees, and operations, or if you have comments or questions about any of these issues, call or write to:

Mary Fitzpatrick  
General Counsel and Secretary to the Board  
LCBO  
55 Lake Shore Blvd. East  
Toronto, Ont. M5E 1A4  
Tel. (416) 864-2578  
Fax (416) 864-2504

#### **THE BOARD OF DIRECTORS**

The mandate of the Board of Directors is to supervise the business affairs of the LCBO.

Among the most important responsibilities of the Board are:

- › developing and approving the strategic plan and monitoring management's success in meeting its business plans
- › preparing annual financial plans
- › ensuring that the organization remains financially sound
- › assessing and managing business risks
- › ensuring that the LCBO provides high-quality service to the public
- › ensuring that the organization has communications programs to inform stakeholders of significant business developments.

#### **APPOINTMENT OF MEMBERS TO THE BOARD**

Members of the Board are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes information about its business, operations and current strategies and issues, and visits to LCBO facilities. New Members also receive written materials and meet with senior management.

Performance appraisals are tied to corporate and departmental business plans: every employee up to the vice president level is assessed by how well he or she helps the LCBO achieve its objectives.

### RESPONSIBILITIES OF BOARD MEMBERS

Each Board Member has individual responsibilities for corporate governance, including:

- › overseeing the management of the business and affairs of the LCBO
- › acting honestly and in good faith in making decisions with a view to the best interests of the LCBO
- › having adequate knowledge of the LCBO's business, how it is organized, and how it functions
- › attending Board meetings and seeking professional advice where necessary
- › exercising judgment independent of management
- › avoiding conflicts of interest. Board Members may not enter into arrangements with the LCBO for personal gain
- › providing guidance on policy development.

### THE STRATEGIC PLANNING PROCESS

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with a strategic planning conference attended by management and frequently by key stakeholders. The purpose of the conference is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board of Directors approves the corporate strategies and reviews the objectives developed by each division to achieve them. Performance appraisals are tied to corporate and departmental business plans: every employee up to the vice president level is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see the five-year plan section in *Management's Discussion and Analysis: Beyond the Numbers*.

### AUDIT COMMITTEE

The Audit Committee is composed of three independent Board Members elected annually by the Board. The committee ensures the reliability and accuracy of the LCBO's financial statements and helps co-ordinate and improve its internal control functions. The committee:

- › investigates the Board's activities and operations
- › advises and instructs the LCBO General Audit Department
- › reviews the LCBO's internal control system, internal compliance audits, and the annual budget and makes recommendations as required
- › identifies the principal risks facing the business and reviews systems to manage these risks
- › acts as a liaison among the Board, the LCBO's General Audit Department and the Provincial Auditor
- › oversees the production of the Annual Report.

The committee meets at least twice a year.



The Board of Directors is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

## **ETHICS AND BUSINESS CONDUCT**

The Board of Directors is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices, in March, 1998, the Board approved a protocol for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April, 1998, the Board approved a new Code of Business Conduct, with policies for conflict of interest; confidentiality; the outside activities of employees, officers and Members of the Board; gifts and entertainment; and human rights.

## **HEALTH AND SAFETY**

The Board approves an annual health and safety policy, and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues. Reports are provided to the Board monthly.

## **STORE PLANNING AND DEVELOPMENT COMMITTEE**

This is a staff committee which reports to the Board. It reviews all real estate and leasing decisions and makes recommendations to the Board. The committee meets monthly.

## **LISTINGS COMMITTEE**

This is a staff committee which reports to the Board. It reviews all applications to list beverage alcohol in LCBO stores, and makes recommendations to the Board about these applications and about the de-listing of certain products from LCBO stores. The committee normally meets quarterly.

## **LISTINGS APPEALS COMMITTEE**

This is a staff committee which reports to the Board. It reviews all appeals of decisions denying listing applications and de-listing beverage alcohol products from LCBO stores and makes recommendations to the Board. The committee meets quarterly.

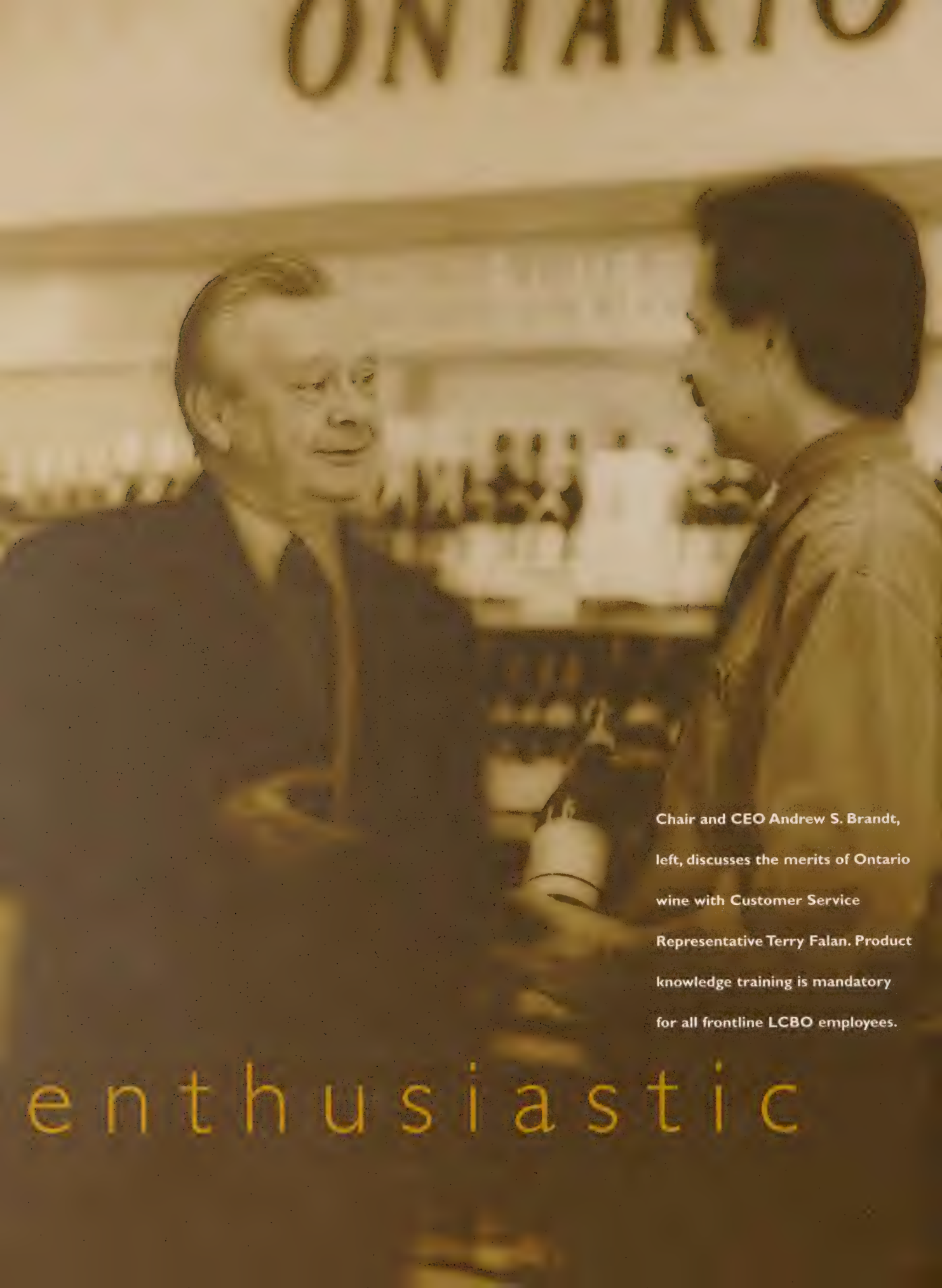
## **GOVERNANCE OF THE LCBO DIFFERS FROM PRIVATE-SECTOR CORPORATIONS**

In public companies, boards of directors usually have a number of key responsibilities which they perform on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, a Crown agency accountable to the Ontario Government, several of these functions are performed directly by government. This includes appointment of the Chair and CEO.

## **YEAR 2000 COMPLIANCE**

The LCBO has undertaken a comprehensive Year 2000 program to ensure that the transition into the millennium proceeds smoothly and that our services remain uninterrupted. For further information, please see Year 2000 in *Management's Discussion and Analysis: Beyond the Numbers*.

# ONTARIO



Chair and CEO Andrew S. Brandt, left, discusses the merits of Ontario wine with Customer Service Representative Terry Falan. Product knowledge training is mandatory for all frontline LCBO employees.

# enthusiastic

In fiscal 1997-98, we turned in our third straight record year, paying a \$745 million dividend to the government to support important programs and services, including roads, schools and hospitals.

Chair's Remarks

# Our third straight record year

Sports teams that win back-to-back championships – like the Toronto Blue Jays in the 1992 and 1993 World Series – have an even tougher challenge when they try to “three-peat.”

By this measure, then, the LCBO is truly a winning team. In fiscal 1997-98, we turned in our *third straight record year*, paying a \$745 million dividend to the government to support important programs and services, including roads, schools and hospitals.

That's an increase of \$15 million over last year's record; \$65 million more than the year before that; and \$160 million more than in 1993-94.

We broke another important barrier in 1997-98: the \$2 billion mark in net sales, which we'd never reached in our 71-year history.

We outperformed the other provincial liquor jurisdictions in sales growth (as we have for several years running), posting an 8.7 per cent volume growth rate; the closest jurisdiction was Newfoundland with 2.2 per cent. In value sales, we tied with Newfoundland for first with a 6.5 per cent gain.

We believe there is still room for the LCBO to improve. Sales to home consumers have traditionally represented more than 85 per cent of our business, with the rest moving through wholesale channels to licensees and Ontario's beer stores.

In recent years, our wholesale business has grown faster than the home consumer market, and now stands at about 19 per cent of our total sales. If we can continue to serve our

wholesale customers well, while bringing the more profitable consumer market closer to its historic level, we can deliver even greater dividends to the people of Ontario.

## THE FACTORS BEHIND OUR SUCCESS

Like many major retailers, we benefited from Ontario's improving economy, and the consumer confidence that came with it. But to benefit from external forces, you have to have vision, leadership, a workable plan, and the resources to put it into action. The LCBO brought all these elements together this year to set new records in productivity and profitability.

Our front-line employees are more enthusiastic, focused and knowledgeable than ever. Management is developing and implementing strategic plans that are both innovative and workable, making the LCBO shopping experience more entertaining, convenient and enjoyable for the customer.

These plans were carried out with the support of the Government of Ontario – and in particular, the Minister of Consumer and Commercial Relations, the Hon. David Tsubouchi – and a knowledgeable Board of Directors.





The LCBO is piloting a Bottle-Your-Own wine service at its store in Toronto's Crossroads Shopping Centre at Weston Road and Highway 401. Customers can bottle red or white wines from Ontario, California or Chile – ideal for those who want to save a little money, but don't have the interest, time or space to make their own wine.

#### Some of the innovations we offered in fiscal 1997-98:

- › **Year-round Sunday shopping:** This was a convenience the majority of customers wanted, as did our suppliers and our employees' union. Now that it's here we're seeing increased customer satisfaction – and some incremental growth in business.
- › **Changes to our stores:** The LCBO store network is constantly improving to meet the needs of its customers. Based on market research, we open new stores, or relocate or renovate existing ones; we're where people want us to be. In fiscal 1997-98, we opened three new stores in Toronto and Ottawa and expanded three others in Toronto, Parry Sound and Niagara Falls. We closed one store in Cornwall – where two other stores could adequately serve the market – and another in Thunder Bay, where a new and larger store was due to open.
- › **Agency Store expansion:** Some smaller communities in Ontario are a long way from the nearest LCBO store, but aren't large enough to support their own store. In such communities we partner with existing retailers who win the right to sell our products along with other goods. In 1997-98, we added seven LCBO agency stores to the 90 already in existence.
- › **AIR MILES:** Like many progressive retailers, we now offer AIR MILES Rewards as a bonus on purchases made in our stores. It's a way to reward loyal LCBO customers, who can earn free air travel, baseball and theatre tickets, movie passes, car rentals and many more non-flight rewards.
- › **BYO:** Short for Bottle-Your-Own, this service has been offered at one Toronto store on a pilot basis since November. Consumers can fill bottles with red or white bulk wines from Ontario, Chile or California, cork them, and even print their own custom labels.
- › **Licensee credit:** In February, the LCBO became Canada's first provincial liquor authority to offer credit card payment options to owners and operators of licensed establishments.

These initiatives – some of which are discussed in greater detail on pages 21-27 – build on the gains made in previous fiscal years, when we introduced:

- › **Credit and debit card payment options for consumers:** these now account for 14 and 19 per cent respectively of all LCBO transactions and make shopping more convenient for customers – and more secure for those who don't like to carry a lot of cash.
- › **Limited Time Offers:** month-long discounts on selected products. More than 750 products were discounted by up to 20 per cent in fiscal 1997-98.
- › **Value Adds:** bonus items attached by suppliers to a host product. Some 850 products carried value-add items last fiscal year.
- › **Extended hours:** many more LCBO stores now stay open later as a convenience to today's busy customers.

- › **Shop the World:** this series of month-long promotions has brought excitement to our stores – and solid sales increases to the suppliers of products featured during each “world event.” Each promotion features a range of interesting products built around a theme, country or region; suggestions and recipes for matching foods; contests for trips; and more. New this fiscal year were customized compact discs of complementary music. One dollar from the sale of each CD went to the Children’s Wish Foundation, raising more than \$23,000 in all.

All of these innovations have helped us become the kind of retailer consumers want us to be. And frankly, the kind *we* want to be. A number of years ago, senior executives at the LCBO drew up a list of programs and services that could help the LCBO complete its transformation from distribution-oriented bureaucracy to dynamic customer-oriented retailer. Just about all of the innovations I’ve mentioned were on this “wish list”. I’m pleased we’ve been able to bring it to life in our stores.

Another reason we continued to evolve so successfully is the stability and continuity of our senior team. Since I joined the LCBO in 1991, we’ve had largely the same senior management team in place, including Executive Vice President Larry Gee. Having this kind of stability has been key in

#### Our three-level Product Knowledge

**Correspondence Course – once**

**optional – is now mandatory for all**

**Retail employees. And we augment**

**that course with numerous other**

**training programs, including *That’s***

***the Spirit*, designed to make every**

**frontline employee more knowl-**

**edgeable about wine, spirits and**

**beer, and better able to share**

**that knowledge with customers.**

The LCBO staged five Shop the World promotions in fiscal 1997-98, each featuring products that focused on a different country, region or theme. Shop the World not only adds excitement to the LCBO shopping experience – it boosts sales of the featured products by as much as 65 per cent year over year. At right are examples of the appealing displays created for three recent “world events.”



bringing our vision to reality. And now that we have in place a pay-for-performance plan for management – implemented this fiscal year – I believe we will be able to retain more of the managers and other professional staff who had been leaving the LCBO for the private sector.

#### KNOWLEDGE WORKERS

No retailer can succeed unless its stores are staffed by men and women who know about – and care about – the products they sell. Never has that been truer of the LCBO than today. Our three-level Product Knowledge Correspondence Course – once optional – is now mandatory for all Retail employees. And we augment that course with numerous other training programs, including *That's the Spirit*, designed to make every frontline employee more knowledgeable about spirits, and better able to share that knowledge with customers. Recent surveys show that customers recognize and appreciate the substantial improvements we've made in this area. Helping customers make more informed shopping decisions also improves the bottom line.

We also have ongoing training programs for our district and store managers, to help them ensure their stores are always ready for business, with the right product selection

and services for their communities. They're now better equipped than ever to perform well in the fast-paced, increasingly complex world of retail.

#### RIGHT ON TARGET

Our stores and warehouses have never been more productive. In fiscal 1997-98, we set 14 targets for productivity in our Retail and Distribution divisions – and met or exceeded every one. We've also worked hard to contain our administrative costs, and these too are lower than they were the year before. By managing our growth, and controlling our expenses, we've been able to provide the best possible return to our shareholders.

Growth in sales has not been limited to any one category. In fact, every category – wine, spirits and beer, domestic and imported – did better this fiscal year than last, while prices remained stable. Growing across all categories – rather than just one area – should help us resist any serious downturns should popular tastes change drastically in the near future.

Our suppliers also deserve a lot of credit for our success. In all categories, they've worked closely with our buyers to bring interest and innovation to our stores. By developing new products, as well as new sizes to suit every budget... by designing eye-catching packaging... by working with us to stage dynamic, popular promotional and educational events... these suppliers enhanced the selection and versatility of the products we can offer our customers.

Beverage alcohol has become a popular gift for birthdays, anniversaries and many other special occasions. In fact, nearly 40 per cent of our customers include alcohol on their gift lists. With free gift wrapping and gift packs in many of our stores, and expanded gift centres and interactive gift registries in some, we hope to earn an even greater share of Canada's lucrative gift market.

We're also offering our customers more ways to shop for our products. Customers can now buy rare premium products through the Vintages' *Classics Catalogue*, as well as a "*Spirit*

*Beverage alcohol has become a popular gift for birthdays, anniversaries and many other special occasions. In fact, nearly 40 per cent of our customers include alcohol on their gift lists.*





of Giving" holiday gift catalogue. Selected products can also be ordered via the Internet. And we've set up a Shop at Home service that customers can access over the phone.

### RESPONSIVE... AND RESPONSIBLE

Minors and people who are intoxicated are finding it harder than ever to purchase alcohol in an LCBO store. Our staff are trained to challenge anyone who appears underage – in fact, anyone who appears to be under the age of 25 – and ensure they have valid identification, including our own BYID card. We refuse to serve anyone who seems impaired. Nor will we sell to anyone who might be buying on behalf of underage or intoxicated people.

In fiscal 1997-98, LCBO employees challenged 648,092 would-be customers – about 80,000 more than in the previous fiscal year. Of those challenged, 81,427 were refused service, about 5,000 more than in the previous year.

To help employees prevent sales to minors and intoxicated people, we created a second-generation video-based training program. The latest version of SMAART – which stands for Strategies for Managing Age & Alcohol-Related Troubles – was to be rolled out in the spring and summer of 1998.

We also developed our largest ever public education campaign, which includes a strong anti-drinking and driving component. The \$1.5 million campaign consists of a cinema commercial, a series of radio spots, and print ads in newspapers and magazines (including our own *Food & Drink* consumer publication). The Ontario Ministry of Transportation and MADD Canada partnered with us on this effort, as they have on other campaigns in the past.

Each year we raise hundreds of thousands of dollars for charity, from a variety of sources, and 1997-98 was no exception. Our employees raised \$156,000 for the United Way through donations and support of special events – an all-time record, and the best showing by any Ontario Government agency in 1997. We raised another \$230,000 through donation boxes at our counters – and that doesn't include \$94,000 collected for ice storm victims in just three weeks in January, 1998.



*Police arrest an impaired driver in a scene from a SMAART training video produced by the LCBO to help employees prevent sales to minors and intoxicated people. All Retail employees are taught to refuse service to anyone who appears intoxicated, and to ask anyone who appears younger than 25 to show valid ID.*

### MODERNIZATION PLANS PROCEEDING

In every way, then, we had a great year. Over \$2 billion in net sales. Record profits. Lower expenses. Higher productivity. A record number of people challenged for proof of age and sobriety.

And yet we kept looking for ways to further improve. In the summer of 1997, the LCBO and the Ministry of Consumer and Commercial Relations (MCCR) launched a joint Modernization Review to ensure the taxpayer and customer get the best value for money from the LCBO.

We then developed a number of proposals, always with the goal of improving responsible service and profitability. After a third-party analysis by external consultants, recommendations were sent to Minister Tsubouchi, who in turn made recommendations to Cabinet.

Cabinet has since approved a plan to invest in the existing retail network, so that the LCBO can further improve service and efficiency, while continuing to focus on social responsibility.



This poster is part of an LCBO campaign that informs consumers about the impact illegal alcohol can have on their health, as well as Ontario's economy. Smuggling and illegal winemaking now account for slightly less than 10 per cent of Ontario's total beverage alcohol market – down from an estimated 15 per cent just five years ago – thanks in large part to the efforts of LCBO investigators and their partners in law enforcement.

In keeping with the government's continued support for modernization, the LCBO will:

- › offer more full-service stores with a greater selection of products and services
- › open new LCBO stores in under-served areas
- › work with suppliers and other beverage alcohol retailers to ensure that consumers and all businesses in this sector benefit from further modernization.

The LCBO will also review every step of its supply chain management process – everything from the way products are listed to how products get to store shelves. This review will focus on identifying cost-saving opportunities, as well as ways to further improve the responsiveness and flexibility of the supply chain process.

Key stakeholders, including employees, the Ontario Liquor Boards Employees' Union and suppliers, will be informed of the direction and outcome of this review and any other changes to the LCBO.

#### THE COMING YEARS

By the time this annual report is printed in the fall of 1998, the question of our future may well be resolved. Premier Mike Harris recently told reporters at Queen's Park that the LCBO was "a tremendous success story... far more efficient, effective, more customer friendly" than it had been before his government took office in 1995. He indicated the LCBO was not one of the assets the government planned to sell at this time.

This of course was good news. So was the ratification of a new two-year collective agreement with the Ontario Liquor Boards Employees' Union in June, 1998. The contract, which runs to March 31, 2000, provides for pay increases of two per cent a year, as well as lump sum payments totalling \$1,400 per permanent full-time employee over the two-year contract; part-time employees will earn a pro-rated share of those payments.

**Capital funding will help us implement exciting marketing plans to establish the LCBO as Ontario's "source for entertaining ideas"... the place consumers come for information about food matching, party planning, responsible hosting – all aspects of entertaining.**

We have asked the government to approve a capital plan for the next five years, so that we may continue to renovate and relocate older stores, and build new stores where needed. These would include larger full-service stores, as well as mini-stores and kiosks to increase convenience and improve service to our ethnic customers or niche market segments.

This capital funding will also help us implement exciting marketing plans that would establish the LCBO as Ontario's "source for entertaining ideas"... the place consumers come for information about food matching, party planning, responsible hosting – all aspects of entertaining.

This is an important part of our strategy to improve service to the home consumer – especially those identified through extensive market research as being most interested in our offerings, and who will provide the maximum return on our investment.

We will work diligently to ensure minimum disruption from the Year 2000 computer problem – discussed at greater length on page 32.

Fighting the illegal market will remain a priority. We made inroads against illegal wine makers and smugglers on two fronts this year: by partnering with law enforcement agencies such as the RCMP, OPP, municipal and regional police forces, Customs Canada and the U.S. Bureau of Alcohol, Tobacco and Firearms to shut down smugglers and illegal wine makers; and by offering the kind of service the bootleggers can't hope to match, including lab-tested products, knowledgeable employees, convenient payment options and more.

As you may have read in recent newspaper stories, some municipalities would like to see the government pass legislation to help them recoup some of the costs of recycling glass bottles. Whether such legislation is passed, and in what form,

remains to be seen. As always, the LCBO will do everything it can to protect the environment and carry out the policy directions of government.

Our future therefore is largely sunny, with scattered clouds mixed in, as weather people like to say.

The horizon seems to be clearing, at least as far as privatization of the LCBO is concerned. A consensus is forming that we should not be sold, but continue to improve.

Further improvement won't be easy, because we have already done much to improve our products and services, as well as the dividend we pay to government.

We'll really have to dig down for new ideas, new ways of doing things better, of making ourselves ever more relevant to the lives of Ontarians, while remaining vigilant and responsible.

I believe we can do all that, if we have the needed working capital. We've got the right team, and the right playbook, to make fiscal 1998-99 another record year.



Andrew S. Brandt  
Chair and CEO

Toronto, Ontario  
June, 1998





**Our senior management team shows some of the awards won by the LCBO in recent years for retail innovation, social responsibility, store design and communications.**

*Back row, left to right: David Wilcox, Vice President, Merchandising; Murray Kane, Vice President, Human Resources; Alex Browning, Vice President, Finance & Administration; Gerry Kerr, Director, Corporate Policy. Middle row: Bill Kennedy, Director, Corporate Communications; Mary Fitzpatrick, General Counsel and Secretary to the Board of Directors; Gordon Sturwood, Vice President, Retail; Shelley Sutton, Director, Strategic Planning. Front: Barry O'Brien, Director, Corporate Affairs. Absent from photo: Ian Martin, Vice President, Distribution and Hugh Kelly, Vice President, Information Technology.*

"I believe the Innovative Retailer of the Year award confirms we've got what it takes

to be Ontario's source for entertaining ideas." LCBO Executive Vice President Larry Gee

# Excellence in retailing award (ERA)

## CANADA'S MOST INNOVATIVE RETAILER – AGAIN!

Being named Innovative Retailer of the Year by the Retail Council of Canada in 1997 was one of the LCBO's proudest moments.

Winning the Council's top award again in 1998 was no less exciting.

The Innovative Retailer of the Year award – which acknowledges overall industry leadership and innovative approaches to customer and employee relations – was presented to the LCBO in the large store category for the second straight year in June, 1998.

The LCBO also won an Excellence in Retailing (ERA) award for Staff Development & Motivation, and was a finalist in two other categories.

"We were up against some very tough competition in all categories," said Executive Vice President Larry Gee. "The other finalists for the Innovative Retailer of the Year – Chapters, Home Depot and Famous Players – are some of Canada's best retailers. To be nominated alongside them, and be voted best in class by our peers, shows how far we've come in our quest to be Canada's top retailer.

"Today's LCBO operates in a shared marketplace," he added. "To succeed in that marketplace, we have to meet and exceed the expectations of our customers, and provide them with an informative and satisfying shopping experience. To obtain 'wallet share' we have to be top-of-mind with consumers when they're thinking of treating themselves or buying gifts. We can only earn their business through compelling customer service.

"I believe the Innovative Retailer of the Year award confirms we've got what it takes to be Ontario's source for entertaining ideas."

The Staff Motivation & Development award deserves equal mention, according to Gee. "This comes for the latest phase



LCBO Executive Vice President Larry Gee

of a training program called *That's the Spirit*, which we developed with the Distillers' Council of Ontario and the Association of Canadian Distillers to equip our frontline employees with the product knowledge and confidence to better inform customers about spirits, and food and beverage matching.

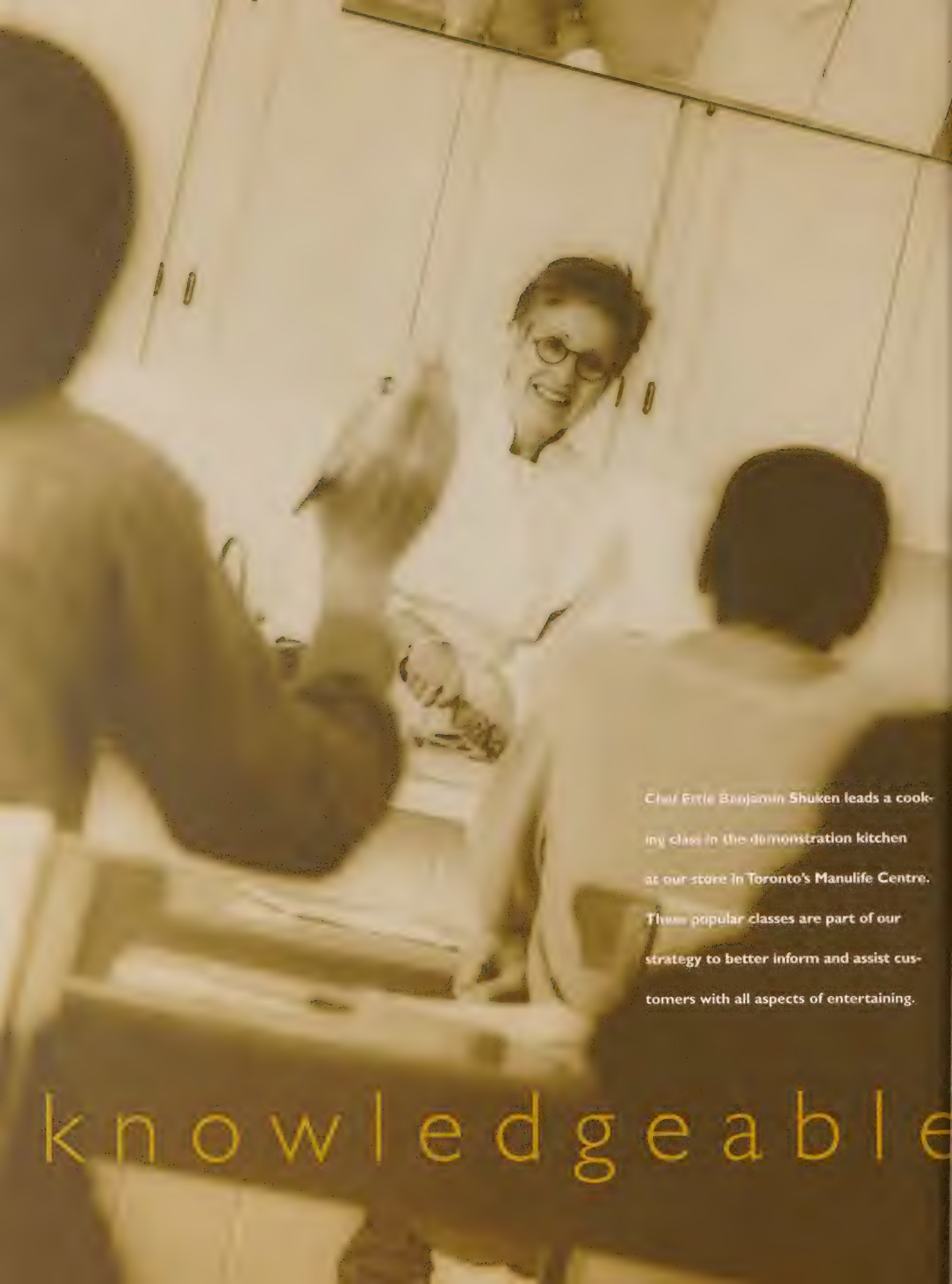
"This program has contributed greatly to the revitalization of the spirits category, whose higher profit margins helped us achieve our record dividend of \$745 million in fiscal 1997-98."

Being named a finalist in two other categories – Marketing & Advertising and Store Layout & Design – shows that excellence is not confined to any one area at the LCBO, Gee notes.

"Our employees work hard at being the best at whatever they do, whether they're serving the public or working behind the scenes to deliver on our commitment to excellence.

"It takes a team to win – whether in competitions such as the ERA awards or the everyday competition of the marketplace – and a winning team is what we've got."





Chef Ernie Benjamin Shuken leads a cooking class in the demonstration kitchen at our store in Toronto's Manulife Centre. These popular classes are part of our strategy to better inform and assist customers with all aspects of entertaining.

knowledgeable



When you've had as successful a year as we did in fiscal 1997-98, it's bound to be marked by many highlights: new customer service initiatives, landmark social responsibility events, promotions and product launches....

We've selected seven initiatives that stand out among everything we did in fiscal 1997-98 to improve customer service, generate record revenue dividends for our shareholders – the taxpayers of Ontario – and contribute in other ways to the many communities we serve.

# Highlights

## 1997 - 1998

### **SERVING ONTARIO... SEVEN DAYS A WEEK**

There was a time when shopping for liquor on Sundays in Ontario would have been unthinkable.

Times have changed. People want to shop when and where it's convenient for them... and not just for beverage alcohol. Sunday shopping in general has been widely accepted in Ontario since 1995. So when the government announced November 14 that LCBO and beer stores could open Sundays year round, most Ontario consumers and visitors welcomed this latest customer service initiative.

Sunday shopping for beverage alcohol had been tested on several occasions in the past two years, most recently in August, 1997.

By the end of the 1997-98 fiscal year, about 550 LCBO stores were opening on Sundays, most of them from 11 a.m. to 6 p.m.

About 20 LCBO stores will remain closed on Sundays because the business just isn't there. Another 24 LCBO stores will remain closed on Sundays because local councils filed objections to Sunday openings, and we respect the wishes of those communities.

Sunday sales added about \$25 million to LCBO sales in fiscal 1997-98, based on incremental sales of about \$1.2 million a week over the 21 Sundays we were open.

Over a full fiscal year, that would boost sales by about \$40 million.

While started primarily as a convenience to customers and tourists, Sunday shopping should also repatriate some sales from Ontario's illegal alcohol market, which does most of its business when our stores close.



*Right: Sunday shopping not only makes life more convenient for today's busy customer – it also helps battle the illegal market, which does most of its business when our stores are closed.*

### AIR MILES TAKE OFF

This year, we began offering AIR MILES Rewards as a bonus on purchases in our stores.

Customers enrolled in the AIR MILES Reward Program earn free air travel, baseball and theatre tickets, long-distance calls, movie passes, car rentals and other rewards.

As a socially responsible retailer, the LCBO can't offer deep price discounts, but we *can* reward loyal customers, and show them we value their business.

That's important, considering we hold less than a 40 per cent share of the beverage alcohol market in Ontario. And we compete not only against other beverage alcohol retailers for market share, but against other providers of gifts and entertainment for what is known as "wallet share."

AIR MILES collectors get one travel mile for every \$20 spent at the LCBO on a cumulative basis over a one-month period. They can then redeem the miles for free air travel and other non-flight rewards. Bonus travel miles may also be added to products by suppliers; these may not exceed \$5 in value, or 20 per cent of the product's selling price.

The AIR MILES program was tested at 86 Toronto-area stores in August and September, 1997; customer reaction quickly convinced management to extend it to all stores in October.

Some LCBO customers were already collecting AIR MILES or similar rewards by using certain credit cards in our stores; our new AIR MILES program simply extended that opportunity to all LCBO shoppers.

In addition to rewarding loyal customers, it's hoped this initiative will help chip away at Ontario's illegal market. As Chair and CEO Andrew S. Brandt noted when the AIR MILES Reward Program was launched: "We owe it to the government – to all stakeholders – to maintain or increase our revenue dividend by drawing people away from the illegal market."

The program also offers the LCBO a chance to develop strategic alliances with some of the other 120 major Canadian corporations that sponsor the AIR MILES Reward Program.

We'll also have access to the AIR MILES database, which provides us with useful information that can help ensure our stores are well located and stocked with the right mix of products and services that customers want. Although information on individual collectors is strictly confidential, aggregate data will help us improve our marketing and social responsibility programs, as well as customer communications.

Customers can indicate on their AIR MILES card applications whether they want to receive information about upcoming tastings, product launches, special events, and social responsibility initiatives.

**The AIR MILES Reward Program was tested at 86 Toronto-area stores in August and September, 1997; customer reaction quickly convinced management to extend it to all stores in October.**

**In February, 1998, LCBO became Canada's first provincial liquor authority to offer credit card payment options to owners and operators of licensed establishments.**

#### **LICENSEE CREDIT A FIRST FOR CANADA**

In February, 1998, we became Canada's first provincial liquor authority to offer credit card payment options to owners and operators of licensed establishments.

According to Ontario's Ministry of Consumer and Commercial Relations, the move will boost youth employment, improve selection in licensed establishments and help fight the illegal alcohol trade.

Debit and credit cards have proved popular at the LCBO since their use was approved by government in the fall of 1994; together they now account for about one-third of all transactions (19 per cent debit cards and 14 per cent credit cards).

While licensees could use debit cards in our stores, like consumers, they could not pay by credit card – until this year.

"We had been looking at ways to improve our service to the licensee market, which is an important – and growing – segment of our customer base," notes Chair and CEO Andrew S. Brandt. "Extending credit to licensees is one positive step in that direction."

Licensees now account for approximately 14 per cent of the LCBO's net sales.

"This move is the equivalent of a \$314 million line of credit for Ontario licensees," says Ken Baxter, Chair of the Ontario Restaurant Association. "This will go a long way to reducing our administrative costs and making us more efficient."

Consumer and Commercial Relations Minister David Tsubouchi, who announced the initiative at a Toronto restaurant February 10, expects licensee credit to help the hospitality industry create jobs.

"The use of credit cards will improve licensees' cash flow and tie up less capital in inventory," he predicted.

This would be especially helpful to the 19- to 25-year-olds who make up much of the hospitality industry workforce, the Minister added. "It's important that we open up as many opportunities as possible for today's young people."

Licensees say the move will enable them to keep a broader selection of products on hand.

The initiative could also prove a useful weapon against the illegal market, according to Brandt. "The option of paying on credit gives licensees another incentive to buy their products from us, rather than illegal channels, where transactions are cash only."



*Customer Service Representative Kimberly Churchill rings up a sale for Donna Rose, Manager of Toronto's Safari Bar & Grill, one of 16,000-plus licensed establishments in Ontario. This year, the LCBO became the first Canadian liquor jurisdiction to offer licensees the option of paying by debit or credit card. For licensees, that's more than a convenience – it's a \$300 million line of credit that can help them do business more efficiently.*





*Attractive, upgraded stores consistently lead to increased satisfaction for LCBO customers, and a greater dividend for the taxpayers of Ontario. Two key players behind the redesign of many of our stores are Jackie Bonic, Director of Store Development & Real Estate, left, and Nancy Cardinal, Director of Marketing Communications.*



#### OUR NEW IMAGE IS A WINNER

If you judge our new store on Avenue Road north of Lawrence in Toronto by looks alone, it's clearly a winner.

Just months after its grand opening in June, 1997, Store 452 (as it's known internally) won a visual merchandising and interior design award at a prestigious competition held by the New York-based Institute of Store Planners. It was the 21<sup>st</sup> store design award won by the LCBO since 1990.

Airy and filled with natural light – complete with a gift centre, a Vintages section and many of the other features our customers expect in a full-service store – 452 gets rave reviews from customers interviewed by our Customer Insights Group.

Store 452 is a winner in sales too. In its first year, the store broke into our top ten list, based on sales during the critical pre-Christmas period. It's expected to top \$11 million in sales a year, without “cannibalizing” business from nearby stores; in fact, the entire trading area is up 40 per cent.

Consumers can expect to see more stores based on this design in the near future, says Store Development and Real Estate Director Jackie Bonic. “This will be the model for all new full-service LCBO stores: attractive and inviting, yet durable and cost-effective.”

Whenever the LCBO renovates, relocates or opens a new store, it's because we've conducted market studies and listened carefully to what customers have told us through in-store surveys, suggestion cards, focus groups and phone interviews.

Like any progressive retailer, we want our stores to be where most people want them to be: well located, visible and accessible, with plenty of parking, and attractive, informative displays.

The end result is higher levels of satisfaction and greater profitability, which translates into greater earnings for the province.

**When you conduct more than 77 million transactions a year, as the LCBO does, saving even a few seconds per transaction can add up to even faster customer service and increased productivity.**

### **UPC SCANNERS COME TO STORES**

When you conduct more than 77 million transactions a year, as the LCBO does, saving even a few seconds per transaction can add up to even faster customer service and increased productivity.

New Universal Product Code (UPC) scanners in our stores do that and a lot more.

For years, LCBO cashiers had to read a six-digit number on every bottle or case sold and key that code into their register by hand.

In fiscal 1997-98, all LCBO stores got new equipment that can scan labels and "tell" a cash register what's been bought.

Cashiers simply swipe a bottle past the scanner, which sends the information to the cash register. The scanners – normally mounted beside a cash – can also be unclipped to read codes on cases.

That's more convenient for our customers, especially at busy times like Christmas, Easter and summer long weekends. And time saved on cash means our staff can spend more time providing other types of customer service, like product information or food matching.

Scanners also tends to be more accurate than data entry, which means they provide the LCBO with even better inventory control than we've had in the past.

And suppliers all over the world will soon be using the same codes. Goods will move from the supplier to our warehouses to our stores to our customers, with every transaction recorded via the UPC.

That's especially important to an organization like the LCBO, which sources some 10,000 products from more than 60 countries worldwide.

*Our retail employees can now scan Universal Product Code labels, rather than keying in product codes by hand. This speeds up every transaction – and ensures more accurate inventory control.*



### QUEST FOR GLORY... AND CONTRIBUTIONS

We were proud to raise more than \$227,000 for Canada's Commonwealth Games athletes during an in-store promotion that ran March 4-29 in 569 LCBO stores.

Previous promotions held in 1995 and 1996 to benefit endangered species and their habitats had proved that LCBO *Shop the World* events could provide a solid platform for fundraising, while building issue and product awareness.

Based on the same model, *Quest for Glory* raised \$227,000 to help send Canadian athletes to the XVI Commonwealth Games in Malaysia in September, 1998.

Funds were raised in three ways:

- › 27 participating suppliers contributed a total of \$173,500;
- › donation boxes at LCBO checkout counters raised another \$12,800;
- › and the sale of commemorative T-shirts raised \$40,862 through August 1, 1998.

*Quest for Glory* also raised public awareness about the Games, and the challenges facing Canada's amateur athletes, in several ways.

The March 4 Toronto launch, which drew such noted athletes as swimmer Mark Tewksbury, gymnast Elfi Schlegel and cyclist Steve Bauer, generated considerable media exposure.

An in-store contest, with a trip for two to Kuala Lumpur as the grand prize, sparked further interest in the Games.

Prominent athletes made personal appearances at LCBO stores in Toronto, Hamilton, Ottawa and Niagara Falls, where they signed autographs, and discussed training methods and the importance of funding to Canadian amateur athletes.

LCBO customers were also invited to sign "Petitions of Support" in all stores, which will be displayed at the Canadian quarters in the athletes' village during the Games.

"The kind of support the LCBO, its suppliers and customers are providing is absolutely vital to Canadian athletes," track cycling champion Lori Ann Muenzer told reporters at the March 4 media launch.

The Commonwealth Games are the world's second-biggest international competition, after the Olympics. About 6,000 athletes from 70 nations on five continents are expected to participate in Malaysia in September, nearly double the number that took part in Victoria, B.C., in 1994.

Canada hopes to send some 400 athletes, coaches and support personnel to compete in events such as track and field, cycling and swimming.



We were proud to raise more than \$227,000 for Canada's Commonwealth Games athletes during an in-store promotion that ran March 4-29 in 569 LCBO stores.



### COLD HANDS, WARM HEART

When the worst ice storm in memory struck Eastern Ontario and Quebec in January, LCBO customers showed just how warmhearted they can be. In just three weeks, they poured \$94,000 into donation boxes in our 596 stores across Ontario – the most successful such fundraising drive in our 71-year history.

According to many LCBO store managers, customers jammed donation boxes so full of loonies, twonies, tens and even twenties that many had to be emptied frequently during the three weeks they were at checkouts.

Consumer and Commercial Relations Minister David Tsubouchi called the fundraising campaign “remarkable... We knew the people of Ontario were generous, but this was extraordinary.”

It was Minister Tsubouchi who first announced January 13 that the LCBO would be a focal point for collection

efforts. “The LCBO is the perfect network to collect assistance province wide,” he said at the time.

The results show he was right on the money. Because the provincial government matched funds for eligible costs at a ratio of up to four to one, the \$94,000 raised in our stores is worth considerably more to the storm victims of Eastern Ontario.


Minister Tsubouchi later commented: “The LCBO has been doing a lot of things right for the taxpayer and the consumers of the province, but people tend to overlook some of the things they do for the community.”

Added LCBO Chair and CEO Andrew S. Brandt: “LCBO employees were proud they were able to help. They’re always looking for ways to serve their communities.”

**When the worst ice storm in memory struck Eastern Ontario and Quebec in January, LCBO customers showed just how warmhearted they can be. In just three weeks, they poured \$94,000 into donation boxes in our 596 stores across Ontario – the most successful such fundraising drive in our 71-year history.**



*The LCBO produced this poster to inform customers about our hugely successful fundraising effort on behalf of ice storm victims – and to thank all those who contributed money in our stores.*



Sunday shopping, AIR MILES,  
new store formats and upgrades,  
in-store promotions and other  
customer service enhancements  
helped boost net sales over the  
\$2 billion mark for the first time.

innovative

In 1998-99, we expect net sales to increase by 4.8 per cent, to \$2.229 billion. A growing economy and our continuing focus on improving the LCBO shopping experience should contribute to another strong year. Our dividend to government should increase for the fifth consecutive year, to \$761 million.

# Management's Discussion and Analysis

## Beyond the numbers 1997-98

This section of the report explains the financial results of the LCBO for the past year and provides background for evaluating its performance. Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a government enterprise, the LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure full disclosure of our results to the widest possible audience.

### HIGHLIGHTS

(value in \$000s)	1996-97	1997-98
Dividend to government	\$ 730,000	\$ 745,000
Net sales and other income	2,013,873	2,160,843
Per cent increase	5.4	7.3
Operating expenses	324,457	351,653*
Net income	701,030	744,904
Per cent increase	5.1	6.3

\* The increase in operating expenses reflects the fact that a "pension contribution holiday" ended; it also reflects increased salary and related operating expenses associated with Sunday openings.

### HIGHER DIVIDEND TO GOVERNMENT FOR FOURTH STRAIGHT YEAR

#### Dividend surpasses expectations

We delivered a record \$745 million dividend to government on behalf of Ontario taxpayers in 1997-98, surpassing our target of \$731 million. This is the fourth straight year we've increased our dividend.

### Sales set new record

Against a background of rising consumer confidence and a buoyant Ontario economy, LCBO net sales rose \$130 million last year to \$2.127 billion. Sunday shopping, AIR MILES, new store formats, in-store promotions and other customer service enhancements helped boost net sales over the \$2 billion mark for the first time – see *Highlights 1997-1998* for more information.

*(Note: The above paragraph refers to net sales alone and not the net sales and other income referenced in the chart at left; the latter includes income from a wide range of sources, including airline markups, border levies, Special Occasion Permit levies, sale of data and IMAGE program revenues.)*

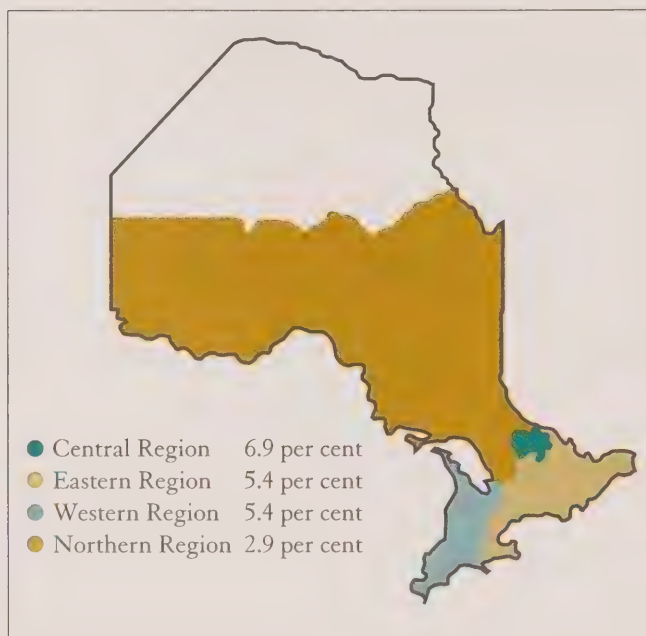
LCBO's performance compared well with other liquor jurisdictions in Canada. Growth in sales by volume surpassed all other provinces by a wide margin in 1997-98 – LCBO volumes were up 8.7 per cent, compared to 2.2 per cent for the next closest province, Newfoundland. Since 1994, LCBO sales by volume have risen 28.3 per cent.

Revenue growth at LCBO outpaced the comparable jurisdictions of B.C. and Quebec (6.5 per cent vs. 3.3 per cent and 2.9 per cent), although revenues in the smaller Newfoundland market rose by 6.5 per cent. The reason the LCBO lags somewhat in revenue growth compared to its volume growth is that the government has not increased its tax structure.



### Sales strongest in Central Region

Across the province, sales growth was as follows:



This pattern is consistent with past experience. Strong economic growth in the Central Region contributed to the large increase in sales. As well, the Central Region is most affected by illegal activity, and efforts to curb the illicit alcohol trade have had the most effect there.

### PRODUCT CATEGORY HIGHLIGHTS

#### Beer market share continues to expand

LCBO beer sales (excluding sales to Brewers Retail Inc.) rose by 9.5 per cent in value and 8.4 per cent in volume in 1997-98. The entire beer market in Ontario is now worth an estimated \$2.5 billion in gross sales (*defined in glossary*). The LCBO's share of this market has risen from 9.8 per cent in 1993-94 to 12.2 per cent in 1997-98, generating almost \$300 million in gross sales.

Imported beer continues to grow in popularity as Ontario drinkers have greater access to these products and show more interest in different styles and flavours. Corona and Heineken in particular showed strong growth in the last year. LCBO imported beer sales by value, excluding sales to Brewers Retail Inc., account for 36.5 per cent of LCBO beer sales.

The convenience of shopping for beer, wine and spirits in one place, as well as the value added by LCBO's knowledgeable staff, contributed to the increase in our market share. So did our capital investment in refrigerated displays.

#### Rosé, red wines show strong growth

Total dollar wine sales rose 6.9 per cent over the previous year. Measured by volume, wine sales were up 2.7 per cent in 1997-98. Litre sales of wine priced in the \$10 to \$15 range and the \$15 to \$20 range showed double digit increases, reflecting wine consumers' increasing tendency to trade up.

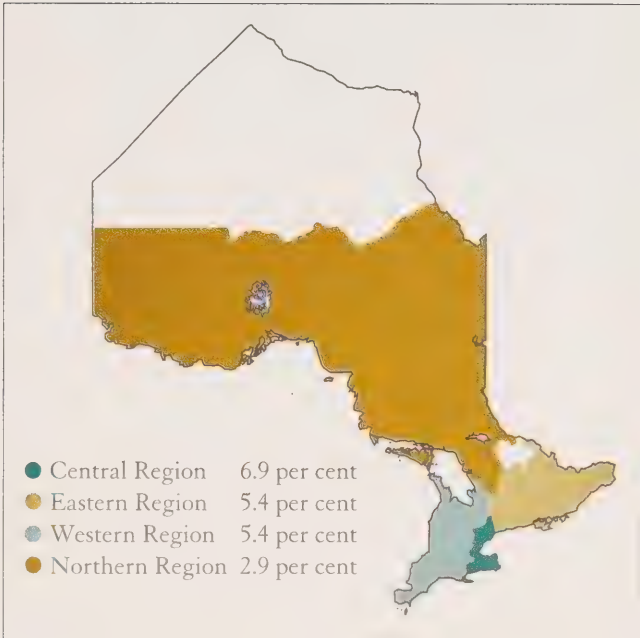
The popularity of rosé wines, especially from California, fuelled strong growth in table wines. U.S. rosé sales by volume are now higher than U.S. red wine sales. Total rosé wine sales by volume increased by 18.3 per cent over 1996-97.

Red wine continues to gain market share at the expense of white wine and now accounts for 37.1 per cent of total dollar wine sales, up from 26.4 per cent five years ago. This may be due to media reports of research showing that moderate consumption of beverage alcohol – especially red wine – has beneficial health effects (the so-called French Paradox).

New World wines also continue to grow in popularity, as reflected in both dollar and litre sales. We expect this pattern to continue in the coming year.

#### Domestic and imported wine

Dollar sales of domestic wine, which include LCBO sales and sales through Ontario winery stores, rose 7.0 per cent. Imported wine sales rose 7.1 per cent. Measured by volume, domestic wine sales rose 2.8 per cent, while imports rose 2.7 per cent.



The printed map on page 30 of this Report is incorrect.  
Please refer to this insert map for the correct LCBO  
Retail regional breakdown.





### Coolers lead increase in spirit sales

Total spirit sales rose by 6 million litres or 11.6 per cent, compared to an increase of 1.1 million litres or 2.3 per cent the year before. Measured in dollars, total spirit sales rose by 4.5 per cent – \$47.7 million compared to \$29.0 million or 2.8 per cent the year before.

The increase in total spirit sales was led by domestic spirit coolers, most notably Mike's Hard Lemonade, which quadrupled in sales in 1997-98, and the introduction of Mike's Hard Cranberry.

Spirit sales in the 200 mL category were up over 50 per cent. Many customers find this size convenient for trying new spirits.

### Retail and wholesale sales

Retail sales, which account for 81.1 per cent of total sales, rose 5.1 per cent over the previous year, reaching \$2.02 billion. Sunday shopping has contributed to this growth.

Wholesale channels grew strongly last year. More Ontario consumers are dining out, leading to a 10.3 per cent increase in licensee sales. Sales to Brewers Retail Inc. have also increased significantly as imported beer becomes more popular and available through this store system. Wholesale sales now account for 18.9 per cent of total LCBO sales, up from 15.8 per cent in 1993-94.

### Looking ahead

In 1998-99, we expect net sales to increase by 4.8 per cent, to \$2.229 billion. A growing economy and our continuing focus on improving the LCBO shopping experience should contribute to another strong year. Our dividend to government should increase for the fifth consecutive year, to \$761 million.

### LCBO IN THE SHARED MARKETPLACE

LCBO operates in the shared marketplace along with other retailers of beverage alcohol, including Brewers Retail, Ontario winery stores, U-Brew and U-Vint outlets, and duty-free stores. There are some 1,962 outlets selling alcohol in Ontario.

Here's what the market looked like at March 31, 1998 (percentages have been rounded):

- › 596 LCBO stores (30 per cent of all outlets)
- › 454 U-Brew/U-Vint outlets (23 per cent of all outlets)
- › 428 Brewers Retail stores (22 per cent of all outlets)
- › 335 Ontario winery stores (17 per cent of all outlets)
- › 97 LCBO agency stores (5 per cent of all outlets)
- › 36 on-site brewery stores (2 per cent of all outlets)
- › 11 land border-point duty-free stores (0.5 per cent of all outlets)
- › 3 on-site distillery stores (0.25 per cent of all outlets)
- › 2 privately-owned airport duty-free stores (.25 per cent of all outlets)

### LCBO, winery stores gaining market share

Ontario's beverage alcohol marketplace amounted to approximately \$6.4 billion in gross sales last year. LCBO's market share by value rose slightly from 38 per cent to 39 per cent. Winery retail store sales have grown from 1.5 per cent in 1993-94 to 2.2 per cent in 1997-98. Brewers Retail Inc. has lost almost three percentage points of market share between 1993-94 and 1997-98, falling to 33.3 per cent.

By volume, LCBO's market share rose 3.6 percentage points since 1993-94, from 17.6 per cent to 21.2 per cent in 1997-98. Winery retail stores increased their share of the market from 1.0 per cent to 1.3 per cent in the same period. Brewers Retail Inc. lost market share between 1993-94 and 1997-98, falling from 66.9 per cent to 61.8 per cent.

### Hobby beer- and wine-making popular

The size of the U-Brew and U-Vint market is believed to have more than tripled in the last five years, from 3.3 per cent of total provincial beverage alcohol sales in 1993-94 to 11.0 per cent in fiscal 1997-98. As noted in last year's annual report, the size of this sales channel was underestimated in previous years. There has also been significant growth in the number of U-Brew and U-Vint outlets since they first appeared in the late 1980s. According to the Brewers of Ontario, the number of U-Brew outlets now exceeds the number of Brewers Retail stores in the province. And some U-Vint operations are larger in scope than boutique wineries.

### **Illegal competition**

Since 1993-94, the estimated size of the illegal alcohol market in Ontario has been steadily falling. In 1997-98, illegal alcohol accounted for an estimated \$584 million in sales – less than 10 per cent of the total Ontario beverage alcohol market for the first time since estimates began. The decline from almost 15 per cent five years ago is due largely to the continuing efforts of law enforcement agencies to tackle the problem. This drop also reflects previous underestimates of other legal channels' market share.

LCBO is constantly looking for ways to discourage the use of illegal alcohol. The introduction of debit and credit cards for beverage alcohol purchases made them more convenient than illegal purchases, which are strictly cash. And Sunday openings plus expanded hours make legal alcohol more available – the illegal market does more business when LCBO stores are closed.

## **YEAR 2000**

### **Background**

The Year 2000 problem arises from the inability of many computer programs to process year data beyond the year 1999. That's because programmers – in a bid to save memory space – designed codes to represent years in two digits only. So January 1, 1965 became 01/01/65. Unless corrected, this shortcut is expected to create widespread problems when the clock strikes 12:00:01 a.m. on January 1, 2000. The code will read "00" for the year and some computers will interpret this as 1900. If not addressed the effects could range from minor errors to significant systems failures.

Any LCBO department that depends on date sequencing, such as payroll, accounting or inventory control may be affected.

The Year 2000 problem may also affect other equipment with computerized components, such as telephones, elevators and security systems.

The problem could also affect computer applications before January 1, 2000, if systems attempt to perform calculations into the year 2000. Nor can many computers detect the fact that 2000 is a leap year, which could result in incorrect data calculations.

To avoid the problem, recently introduced programs use four digits to denote the year.

### **Working on Year 2000 since 1997**

LCBO has established a Year 2000 Corporate Compliance Office to handle all issues related to the Year 2000 problem and appointed a Director of Year 2000 Compliance.

The LCBO has been working on Year 2000 issues since mid-1997. We are in the process of identifying potential Year 2000 problems and developing plans to address them. A number of our computer applications are believed to be already compliant, notably our Inventory Management and Forecasting/Replenishment Systems. Deadlines have been set for other business-critical systems, as follows:

- › Enterprise Server Platform – July 1998
- › Information Library – July 1998
- › All computer workstations – January 1999
- › Financial Information System and Point-of-Sale system – April 1999
- › All other major systems throughout the LCBO – July 1999

Although it is not possible to be certain that all aspects of the Year 2000 issue affecting the LCBO, including those related to the efforts of its suppliers, customers or other third parties will be fully resolved, this schedule should give us the time we need to test and re-test our readiness for the year 2000.

The LCBO does business with third-party suppliers in some 60 countries around the world. There can be no assurance that another company's failure to ensure Year 2000 capability will not have an adverse effect on us. The LCBO has implemented a communications plan to inform its key business partners, suppliers and employees about our Year 2000 project. Changes are also being incorporated into technology contracts to ensure Year 2000 compliance. And we will be contacting our key business partners and suppliers to discuss their Year 2000 readiness. We will assess the potential effects on LCBO operations if these organizations do not make appropriate modifications to their systems on a timely basis.

## THE INCOME STATEMENT

### Net income up \$43.9 million

Net income was \$745 million. This was \$18.4 million over target and almost \$44 million higher than the previous year.

The income-to-sales ratio was 35.0 per cent, just missing our 1997-98 target of 35.1 per cent. This was largely because the target was set before the approval of Sunday openings, which added to expenses.

Stronger sales in general – a 6.5 per cent increase over last year – were boosted by 19 extra shopping days in 1997-98 and a one-time increase in other income, which is explained below.

### Reduced gross margins

The gross margin as a percentage of net sales for 1997-98 was 50.0 per cent, below last year's 50.5 per cent. One reason for this is the continuing shift in the product mix towards beer and wine, which have lower margins than spirits. Beer and wine now represent 47.6 per cent of total net sales (*defined in glossary*), up from 42.1 per cent five years ago.

The growth in the wholesale market also contributed to the lower gross margin ratio, due to the discounts provided on these sales.

### Productivity ratios are improving

To track expenses and see where improvements are needed, the LCBO sets targets for many productivity ratios each year. For example, the retail-expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries. A declining retail-expenses-to-sales ratio means that staff are becoming more productive.

Last year, we bettered or matched all retail productivity targets, despite the introduction of Sunday shopping in December. Although there is an added salary expense associated with Sunday staffing, the retail-expenses-to-sales ratio fell from 10.9 per cent to meet the target of 10.6 per cent. We also beat our distribution productivity targets for 1997-98

as sales by volume rose and costs fell. Better labour scheduling led to significant salary savings, while improved work procedures speeded up handling time. The following tables demonstrate the improved efficiency of LCBO staff at both the retail and distribution level.

## RETAIL – FINANCIAL AND OPERATING HIGHLIGHTS

	1993-94	1994-95	1995-96	1996-97	1997-98
Store Expenses					
Per Unit Sold	\$1.32	\$1.29	\$1.25	\$1.19	\$1.16
Store Expense					
as % of Sales	11.8%	11.7%	11.5%	10.9%	10.6%
Sales Per					
Customer	\$23.77	\$24.00	\$24.75	\$25.28	\$25.75
Sales Per					
Square Foot	\$1,262	\$1,286	\$1,349	\$1,365	\$1,452

## DISTRIBUTION – FINANCIAL AND OPERATING HIGHLIGHTS

	1993-94	1994-95	1995-96	1996-97	1997-98
Total Distribution					
Cost Per Case	\$1.60	\$1.65	\$1.51	\$1.40	\$1.27
Warehouse Cost					
Per Case	\$1.22	\$1.25	\$1.15	\$1.10	\$0.98
Distribution Cases					
Per Hour	45	43	45	47	51



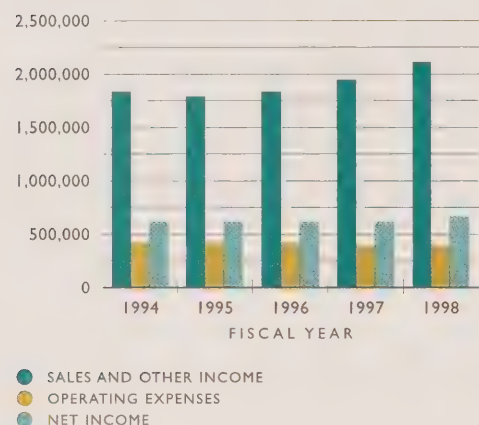
### Holding the line on expenses

The administrative expense ratio met the target of 1.4 per cent, a considerable achievement since the first management salary increase in seven years was processed in 1997-98.

Operating expenses grew by 8.4 per cent, or \$27 million in 1997-98, reflecting the end of the pension holiday and higher salary and related operating expenses associated with Sunday shopping. Since 1993-94, operating expenses as a percentage of net sales and other income have fallen from 18.9 per cent to 16.3 per cent in 1997-98.

### FINANCIAL INDICATORS: 1994-1998

(values in \$000s)



### Other income

This category includes items such as parking revenues, special occasion permits, airline markups, and investment income. Other income was over \$34 million, more than double the target due to a large one-time payment. Canadian airline companies settled outstanding levies due to LCBO after a recent court judgement in our favour.

### BALANCE SHEET

#### Liabilities down

Liabilities were down in 1997-98, largely due to a decline in accounts payable, from \$142.6 million to \$118.4 million.

#### Year-end inventories up slightly

Year-end inventory was up slightly over last year – \$193.4 million in 1997-98 versus \$193.0 million in 1996-97. However, average inventory fell from \$189.0 million in 1996-97 to \$187.0 million in 1997-98.

The inventory turnover ratio has improved to 5.5, up 7.8 per cent over last year.

### CHANGES IN OUR FINANCIAL POSITION

#### Less cash on hand

Our cash position dropped from \$49.6 million in 1996-97 to \$19.0 million at the end of 1997-98, mainly due to a \$24.2 million reduction in our product accounts payable.

### CAPITAL EXPENDITURES

(values in \$000s, numbers rounded)

	1993-94	1994-95	1995-96	1996-97	1997-98
Retail	11,929	13,223	14,464	8,110	13,009
Information Technology	1,508	9,826	8,639	8,720	8,472
Distribution	1,142	2,172	1,846	782	1,213
Marketing Programs	1	1,734	1,600	1,553	1,989
Other Admin. Divisions	173	681	670	248	917
<b>Total Capital Expenditures</b>	<b>14,753</b>	<b>27,636</b>	<b>27,219</b>	<b>19,413</b>	<b>25,600</b>

### WE'RE NOT RESTING ON OUR LAURELS

Our success as a retailer is due to continuous innovation. In the past year, we've introduced new shopping hours, new retail formats, and new products and services to meet our customers' needs. Our number one goal is compelling customer service.

#### The five-year plan

To meet our goal, we've developed a five-year capital strategy to allow us to:

- › continue to compete in the changing beverage alcohol market
- › increase customer satisfaction and remain the beverage alcohol retailer of choice
- › maximize returns to Ontario taxpayers by generating increased dividends to the Ontario Government over the next five years.

The proposed plan calls for \$222.6 million in capital spending over five years, with more than 80 per cent spent on operations – the elements that customers see and experience. We expect an average dividend of \$801 million each year under the plan, or transfers of \$4.0 billion over the five years.

## PUBLIC SECTOR DISCLOSURE ACT

The Public Sector Disclosure Act, passed by the Ontario Legislature in 1996, is designed to make the public sector more open and accountable to taxpayers. The Act requires Ontario's public sector organizations, including the LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees paid \$100,000 or more a year. In keeping with the requirements of the Act, the LCBO submits the following information for calendar 1997.

Name	Position	Salary Paid	Taxable Benefits
Brandt, A.S.	Chair & CEO	\$ 104,054.69	\$ 443.66
Browning, J.A.	VP, Finance & Administration	\$ 119,976.10	\$ 510.60
Clute, C.P.	(seconded to Min. of Finance)	\$ 100,700.51	\$ 492.64
Gee, L.C.	Executive Vice President	\$ 152,292.21	\$ 661.92
Kane, M.	VP, Human Resources	\$ 109,262.85	\$ 532.76
Kelly, H.	VP, Information Technology	\$ 110,285.89	\$ 468.48
Lyons, C.*	Controller	\$ 100,472.40	\$ 876.84
Martin, J.	VP, Distribution	\$ 112,383.50	\$ 467.76
Sherwood, G.	VP, Retail	\$ 119,976.10	\$ 510.60
Wilcox, D.	VP, Merchandising	\$ 119,976.10	\$ 510.60

\* One time retroactive maternity sub-allowance payment

## RESPONSIBILITY FOR FINANCIAL REPORTING

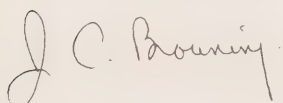
The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 5, 1998.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, comprised of three directors who are not employees/officers of the Board, meets periodically with management, the internal auditors, and the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:



Alex Browning  
Vice President, Finance & Administration

## KEY OPERATIONAL AND FINANCIAL STATISTICS

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, of permanent employees and of regular products listed.

### Operations

	1994	1995	1996	1997	1998
Number of LCBO Stores	600	597	596	595	596
Number of Permanent Employees	2,743	2,824	2,803	2,828	2,934
Number of Regular Products Listed	2,336	2,389	2,377	2,349	2,442

The critical financial variables of net sales and other income, total operating expenses and net income are given in the following table.

### Financial (values in \$000s)

	1994	1995	1996	1997	1998
Net Sales and Other Income	1,764,731	1,808,518	1,909,804	2,013,873	2,160,843
% change/ previous year	-1.22%	2.48%	5.60%	5.45%	7.30%
Operating Expenses	333,716	313,029	323,819	324,457	351,653
As a % of net sales	18.91%	17.31%	16.96%	16.11%	16.27%
Net Income	598,909	637,299	666,717	701,030	744,904
As a % of net sales	33.94%	35.24%	34.91%	34.81%	34.47%

Note: The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line listed in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the Sales Channel Summary on page 40.

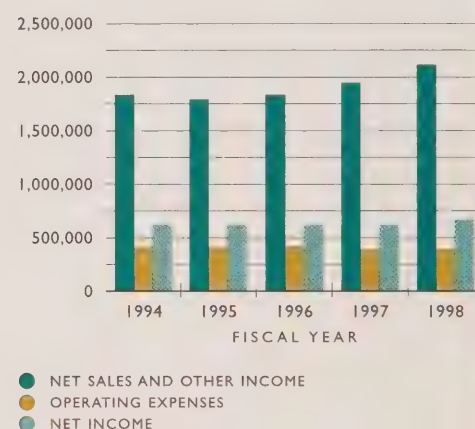
### Breakdown of Operating Expenses (values in \$000s)

	1994	1995	1996	1997	1998
Salaries and Benefits	209,900	200,344	204,629	203,699	218,631
Capital	21,070	18,613	20,962	22,167	24,666
Other Expenses	102,746	94,072	98,228	98,591	108,356
Total Operating Expenses	333,716	313,029	323,819	324,457	351,653

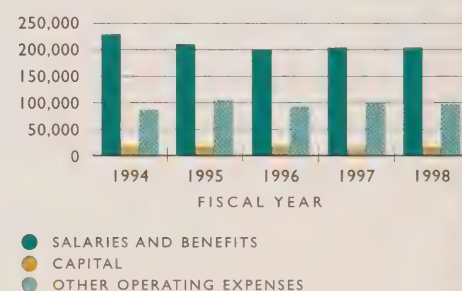
### Key Indicators: 1994-1998



### Financial Indicators: 1994-1998 (values in \$000s)



### Operating Expenses: 1994-1998 (values in \$000s)





## REVENUE PAYMENTS

Year ended March 31, 1998

The following tables show the breakdown of revenue payments for the last five years to the federal, provincial, and municipal governments.

### Treasurer of Ontario (all values in \$000s)

	1994	1995	1996	1997	1998
Remitted by the LCBO:					
On account of profits	585,000	630,000	680,000	730,000	745,000
Remitted by the LCBO:					
Ontario retail sales tax on sales through liquor	173,497	174,189	182,762	192,357	202,148
**Remitted by the Liquor Licence Board:					
On account of licence fees and permits	521,784	532,116	529,690	520,829	505,657
**Remitted by others:					
Ontario retail sales tax on sales through Brewers					
Retail stores and Ontario winery stores	149,894	154,157	157,046	157,582	160,321
Ontario retail sales tax on sales through agency stores	1,786	1,927	2,301	2,565	2,839
<b>Total</b>	<b>1,431,961</b>	<b>1,492,389</b>	<b>1,551,799</b>	<b>1,603,333</b>	<b>1,615,965</b>

\*\* The Liquor Licence Board, now the Alcohol and Gaming Commission of Ontario (AGCO), Brewers Retail Inc. and Ontario winery stores are separate, non-LCBO businesses.

Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

### Receiver General for Canada

	1994	1995	1996	1997	1998
Remitted by the LCBO:					
Excise taxes and Customs duties	225,518	227,803	235,022	239,058	247,413
Goods and Services Tax	59,137	60,939	60,344	64,672	68,642
Remitted by others:					
Excise taxes, GST and other duties/taxes	276,477	319,839	327,660	342,763	329,802
Goods and Services Tax remitted on sales through agency stores	1,042	1,124	1,343	1,496	1,656
<b>Total</b>	<b>562,174</b>	<b>609,705</b>	<b>624,369</b>	<b>647,989</b>	<b>647,513</b>

### Ontario Municipalities

	1994	1995	1996	1997	1998
Remitted by the LCBO:					
Grants in lieu of realty and business taxes	6,218	6,084	6,188	5,816	5,897
<b>Total Revenue Payments</b>	<b>2,000,353</b>	<b>2,108,178</b>	<b>2,182,356</b>	<b>2,257,138</b>	<b>2,269,375</b>

Note: These amounts do not include corporation, realty and business taxes paid by the distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees and agency stores on sales of beverage alcohol is excluded from these figures. The 1998 figures for Remitted by Others are slightly understated due to several brewers not reporting financial information at the time of publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.

## SALES VOLUMES

LCBO Sales (values in 000s litres)

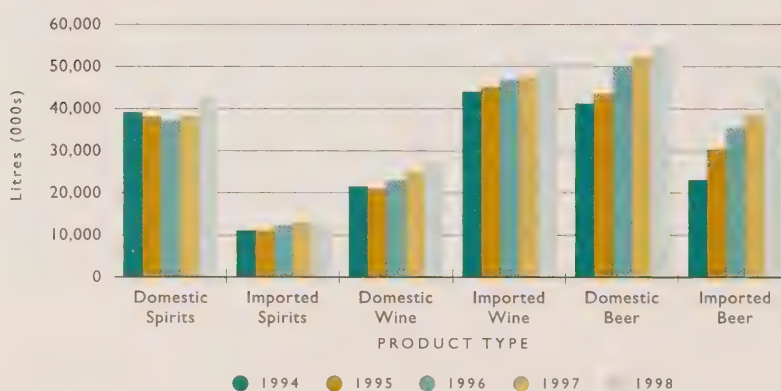
Product Type	1994	1995	1996	1997	1998
Domestic Spirits	31,924	30,836	30,585	30,615	31,015
Domestic Spirit Coolers	5,656	5,628	4,669	5,556	12,150
Imported Spirits	11,375	12,087	14,877	15,097	14,059
<b>Total Spirits</b>	<b>48,955</b>	<b>48,551</b>	<b>50,131</b>	<b>51,268</b>	<b>57,224</b>
Domestic Wine	20,969	20,483	22,208	24,957	25,845
Domestic Wine Coolers	1,255	1,042	903	895	718
Imported Wine	44,951	46,375	47,671	48,328	49,617
<b>Total Wine</b>	<b>67,175</b>	<b>67,900</b>	<b>70,782</b>	<b>74,180</b>	<b>76,180</b>
Domestic Beer	43,006	45,654	49,584	52,861	55,763
Domestic Beer Coolers	36	22	27	20	24
Imported Beer	24,966	31,012	35,873	39,021	47,082
<b>Total Beer</b>	<b>68,008</b>	<b>76,688</b>	<b>85,484</b>	<b>91,902</b>	<b>102,869</b>
<b>Total Domestic</b>	<b>102,846</b>	<b>103,665</b>	<b>107,976</b>	<b>114,904</b>	<b>125,515</b>
<b>Total Imported</b>	<b>81,292</b>	<b>89,474</b>	<b>98,421</b>	<b>102,446</b>	<b>110,758</b>
<b>Total</b>	<b>184,138</b>	<b>193,139</b>	<b>206,397</b>	<b>217,350</b>	<b>236,273</b>

(values in 000s litres)

Product Type	1994	1995	1996	1997	1998
Sales by Ontario winery stores	9,999	11,960	13,164	14,411	14,838
Sales by Brewers Retail & on-site stores	665,277	670,494	670,539	653,106	654,284

Note: LCBO beer sales figures include LCBO sales to Brewers Retail Inc. The 1998 figures for Sales by Brewers Retail and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication. LCBO domestic beer sales were overstated in fiscal 1997 and have been restated.

LCBO Sales Volume by Product Type: 1994-1998



SALES VALUE

LCBO Sales (values in \$000s)

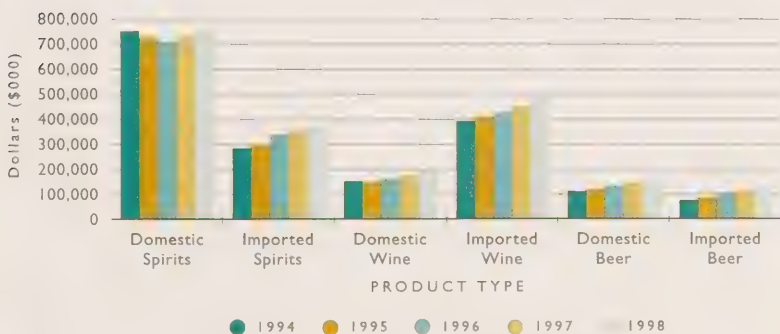
Product Type	1994	1995	1996	1997	1998
Domestic Spirits	698,695	678,101	671,080	680,092	691,165
Domestic Spirit Coolers	26,709	26,725	22,148	27,893	61,093
Imported Spirits	285,478	303,441	340,638	354,929	358,362
Total Spirits	1,010,882	1,008,267	1,033,866	1,062,914	1,110,620
Domestic Wine	143,270	143,105	158,888	178,563	190,809
Domestic Wine Coolers	4,663	3,739	3,347	3,209	2,612
Imported Wine	390,427	410,573	435,845	469,803	503,290
Total Wine	538,360	557,417	598,080	651,575	696,711
Domestic Beer	123,599	131,348	145,816	160,544	170,537
Domestic Beer Coolers	116	69	87	67	83
Imported Beer	73,641	90,143	107,275	118,567	145,326
Total Beer	197,356	221,560	253,178	279,178	315,946
Total Domestic	997,052	983,087	1,001,366	1,050,368	1,116,299
Total Imported	749,546	804,157	883,758	943,299	1,006,978
Non Liquor	2,553	2,201	2,059	3,124	3,479
Total	1,749,151	1,789,445	1,887,183	1,996,791	2,126,756

(values in 000s litres)

Product Type	1994	1995	1996	1997	1998
Sales by Ontario winery stores	68,317	83,369	95,227	106,257	114,805
Sales by Brewers Retail stores	1,754,761	1,792,638	1,809,030	1,804,847	1,858,377

Note: Sales values listed above for the LCBO and Ontario winery stores consist of net sales. Sales values for Brewers Retail Inc. consist of net sales plus GST. Sales by Brewers Retail for 1997 have been restated to reflect net sales plus GST.

LCBO Sales Value by Product Type: 1994-1998



Share of Volume Sales



Share of Dollar Sales





## PRODUCT LISTINGS

	1994	1995	1996	1997	1998
<b>Domestic</b>					
Spirits	450	379	352	361	355
Wine	431	457	455	437	422
Beer	289	311	316	295	326
<b>Imported</b>					
Spirits	279	276	292	315	372
Wine	806	874	873	839	870
Beer	81	92	89	102	97
Total Regular Listings	2,336	2,389	2,377	2,349	2,442
Vintages Wines and Spirits	1,223	1,987	2,368	2,744	3,037
Duty-Free Listings	170	182	207	205	213
Consignment Warehouse and Private Stock	3,106	3,515	4,249	4,573	5,240
<b>Total Product Listings</b>	<b>6,835</b>	<b>8,073</b>	<b>9,201</b>	<b>9,871</b>	<b>10,932</b>

Note: Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

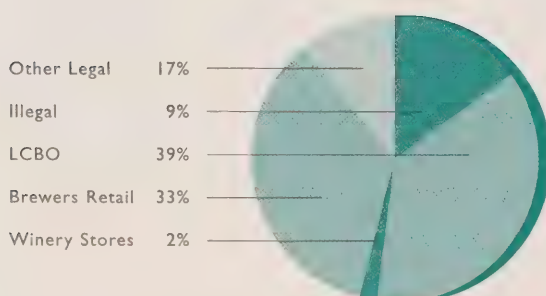
## SALES CHANNEL SUMMARY

(values in \$000s)

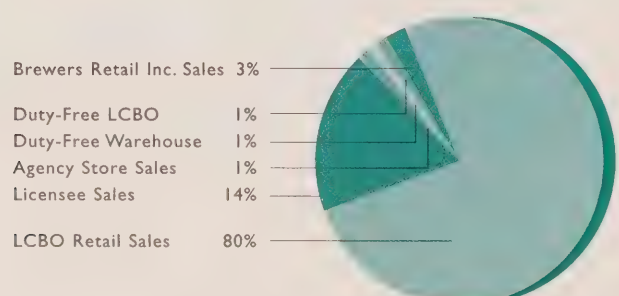
	1994	1995	1996	1997	1998
LCBO Total Sales	2,054,991	2,101,952	2,215,523	2,342,998	2,493,935
Brewers Retail Inc. Total Sales	1,910,584	1,951,825	2,060,219	2,075,664	2,114,467
Winery Retail Stores Total Sales	81,297	99,233	113,320	126,446	136,618
<b>Other Channels</b>					
Legal	352,746	334,139	280,559	799,332	935,686
Homemade	111,983	113,930	127,829	138,531	60,918
De-alcoholized Beer	15,069	19,600	22,540	24,140	25,854
Illegal	795,097	785,076	774,574	644,472	583,780
<b>Grand Total</b>	<b>5,321,767</b>	<b>5,405,755</b>	<b>5,594,564</b>	<b>6,151,583</b>	<b>6,351,258</b>

Note: All figures shown are gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail and Ontario winery store data were provided by the Brewers of Ontario and individual winery retail stores. LCBO and Brewers Retail figures are slightly overstated due to reciprocal sales included in the individual totals. These are excluded in the Value by Sales Channel chart.

Values by Sales Channel

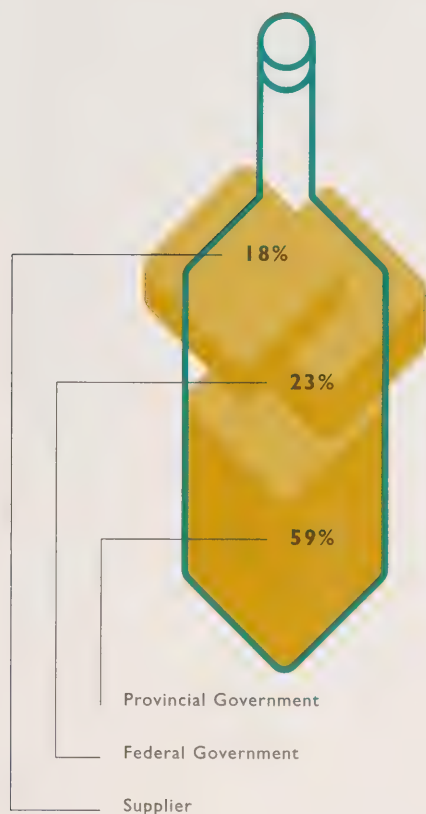


LCBO Value by Sales Channel

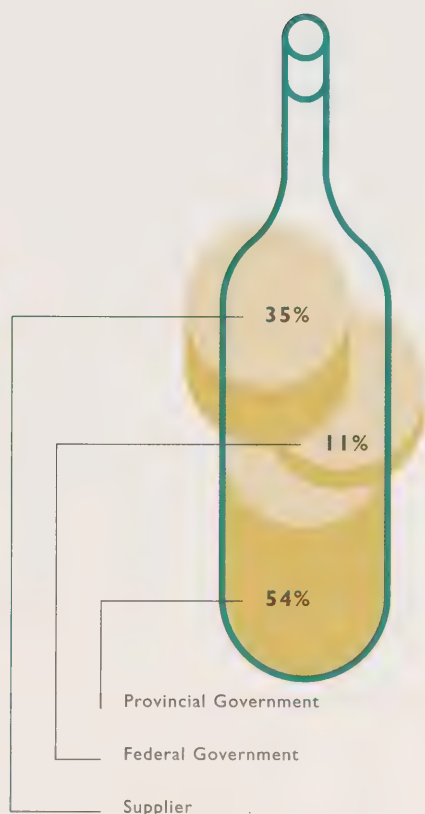


## REVENUE DISTRIBUTION

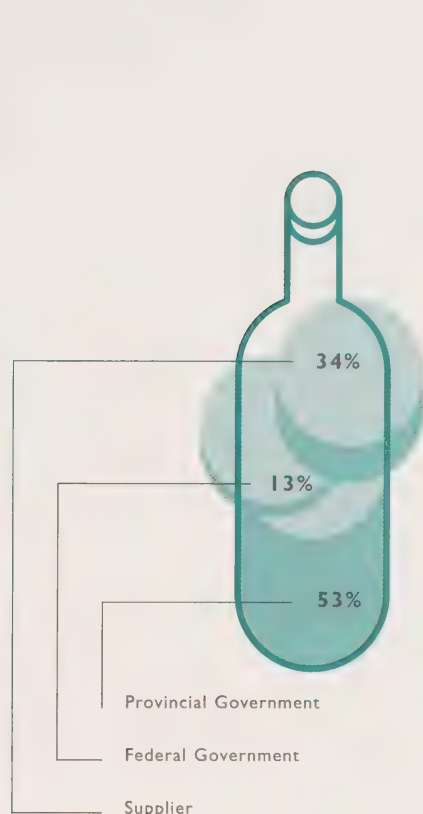
### Domestic Spirits



### Domestic Wine



### Domestic Beer

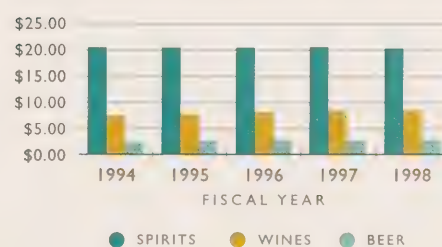


## AVERAGE LCBO RETAIL PRICES

	1994	1995	1996	1997	1998
Spirits	\$ 20.65	\$ 20.77	\$ 20.62	\$ 20.73	\$ 19.41
Wine	\$ 8.01	\$ 8.21	\$ 8.45	\$ 8.78	\$ 9.15
Beer	\$ 2.90	\$ 2.89	\$ 2.96	\$ 3.04	\$ 3.07
Average Transaction Value Per Customer	\$ 22.00	\$ 22.43	\$ 23.33	\$ 22.89	\$ 23.34

Note: Average prices are exclusive of Ontario Retail Sales Tax and Goods and Services Tax.

### Average Retail Prices Per Litre: 1994-1998



## LCBO SALES VOLUME BY CATEGORY

Category	Product Category Share				
	1994	1995	1996	1997	1998
<b>Canadian Spirits</b>					
Canadian Whisky	40.0%	41.3%	40.7%	39.9%	33.5%
Canadian Rum	18.0%	18.7%	18.7%	18.4%	15.6%
Canadian Vodka	15.1%	15.9%	16.6%	17.1%	15.4%
Spirit Coolers	15.1%	13.1%	13.3%	15.4%	28.1%
Canadian Dry Gin	3.9%	3.9%	3.6%	3.2%	2.5%
Other	7.8%	7.1%	7.2%	6.1%	4.9%
<b>Imported Spirits</b>					
Scotch	29.9%	26.1%	23.3%	23.0%	25.1%
Liqueur	17.1%	17.3%	16.6%	17.9%	19.1%
Miscellaneous Liquors	14.6%	13.5%	12.7%	11.9%	13.9%
Vodka	11.3%	11.0%	10.4%	11.0%	12.4%
French Brandy	9.8%	8.6%	8.0%	8.0%	9.3%
Spirit Coolers	0.0%	8.4%	11.1%	10.1%	0.9%
Other	17.2%	15.0%	17.8%	18.1%	19.3%
<b>Canadian Wines</b>					
White Table	59.6%	58.5%	56.1%	51.3%	49.1%
Red Table	12.6%	14.6%	17.0%	18.3%	20.5%
7% Sparkling	7.1%	7.1%	6.8%	6.3%	6.0%
Sherry	7.0%	6.7%	5.8%	5.0%	5.5%
Wine Coolers	5.7%	4.8%	3.9%	3.5%	3.7%
Other	8.1%	8.3%	10.4%	15.6%	15.1%
<b>Imported Wines</b>					
White Table	56.2%	53.7%	50.4%	46.7%	43.8%
Red Table	31.4%	34.0%	36.6%	39.0%	42.1%
Champagne	3.8%	3.8%	3.7%	3.7%	3.8%
Sherry	2.2%	2.0%	2.2%	2.2%	2.0%
Other	6.4%	6.6%	7.1%	8.4%	8.3%
<b>Canadian Beer</b>					
Ontario Beer	96.4%	95.4%	95.8%	94.3%	93.5%
Other Canadian Beer	3.6%	4.6%	4.2%	5.7%	6.5%
<b>Imported Beer</b>					
U.S. Beer	48.6%	48.6%	45.9%	42.8%	42.1%
Other Imported Beer	50.9%	50.9%	53.7%	56.9%	57.6%
Sake	0.5%	0.5%	0.4%	0.3%	0.3%



## DETAILED SALES OF WINE BY VOLUME AND VALUE

LCBO sales only

### Volume (000s litres)

Product Type	1994	1995	1996	1997	1998
Red Wine	16,474	18,345	20,911	23,106	25,570
White Wine	37,750	36,793	36,313	35,226	34,093
Rosé Wine	1,248	1,365	1,677	2,108	2,493
Sparkling Wine	4,028	3,959	3,989	4,035	3,969
Fortified Wine	3,892	3,810	3,764	3,602	4,083
Wine Coolers	1,255	1,042	903	1,094	1,004
Other Wine	1,182	1,227	1,914	3,627	3,336
VQA Wines*	1,485	1,200	1,660	2,494	2,534

### Value (\$000s)

Product Type	1994	1995	1996	1997	1998
Red Wine	142,342	163,030	190,371	223,586	258,225
White Wine	280,849	280,061	284,955	287,892	288,217
Rosé Wine	9,510	10,460	12,846	16,341	19,983
Sparkling Wine	41,855	41,840	42,161	44,099	46,598
Fortified Wine	32,627	32,648	33,388	33,143	40,035
Wine Coolers	4,655	3,740	3,342	4,923	4,660
Other Wine	10,175	9,426	14,190	21,072	16,382
VQA Wines*	15,339	16,446	20,075	27,671	31,146

Note: \*VQA wine sales are reported as a separate consolidated figure and also within each product category. Sales figures of wine by volume and value exclude Private Stock sales. Rosé wine and other wine sales have been restated as a result of a reclassification.

## LCBO SALES BY COUNTRY OF ORIGIN – VOLUME AND VALUE

### SPIRITS

Country	Net Value	Litres
Canada	744,350,442	43,125,781
Great Britain	123,143,141	4,557,319
France	56,044,252	1,780,154
U.S.A.	29,502,148	1,556,854
Ireland	33,265,687	1,248,768
Italy	23,136,097	1,095,259
Sweden	20,681,895	906,641
Mexico	21,686,277	861,349
Finland	9,227,520	426,416
Russian Federation	4,497,570	204,932
Germany	4,533,557	189,365
Barbados	3,343,586	149,770
Poland	3,034,129	139,186
Greece	2,991,938	132,089
Netherlands	1,985,331	104,584
Jamaica	2,615,685	97,959
South Africa	1,968,000	87,863
Switzerland	2,240,489	67,885
Spain	1,106,783	51,274
Guyana	624,384	29,498
Cuba	660,700	28,100
Hungary	510,140	25,234
Portugal	593,852	22,366
Bermuda	603,396	19,126
Venezuela	480,832	19,108
Bahamas	362,444	16,715
Croatia	388,071	15,062
India	334,556	14,885
Ukraine	331,699	14,868
Denmark	330,809	13,586
Lebanon	302,308	12,970
People's Republic Of China	248,956	12,451

### Spirits continued

Country	Net Value	Litres
Belgium	136,518	4,201
Austria	149,990	4,010
Israel	54,606	2,417
Puerto Rico	60,824	2,331
Chile	39,544	1,688
Estonia	34,700	1,453
Macedonia	33,985	1,406
Grenada	34,273	1,209
Czech Republic	24,224	939
Japan	21,785	800
Trinidad	15,355	717
Cyprus	5,127	246
Philippines	1,277	59
Norway	1,531	54
Martinique	303	1
<b>Grand Total</b>	<b>1,095,740,716</b>	<b>57,048,949</b>

## WINE

Country	Net Value	Litres
Canada	189,002,766	26,503,439
France	165,718,034	16,435,276
Italy	98,688,287	10,593,632
U.S.A.	72,129,563	6,952,322
Australia	32,917,588	2,688,378
Chile	27,655,602	3,054,330
Germany	17,219,267	1,782,474
Spain	15,968,202	1,430,020
Portugal	15,292,460	1,428,026
South Africa	9,585,945	942,576
Greece	5,726,107	807,009
Hungary	4,738,356	664,232
Bulgaria	2,328,087	322,376
New Zealand	2,152,177	154,919
Argentina	1,437,794	159,060
Croatia	950,321	116,790
Great Britain	927,143	165,858
Israel	890,256	97,046
Romania	493,687	66,708
Austria	387,501	34,111
Denmark	289,472	25,664
Cyprus	182,601	22,391
Macedonia	156,360	23,534
Czech Republic	136,688	18,073
Switzerland	101,271	5,324
Jamaica	96,779	10,956
Mexico	93,669	9,877
Japan	90,642	9,389
Slovenia	75,253	8,532
Bolivia	72,348	6,267
Uruguay	64,879	6,301
Belgium	5,554	332
Morocco	4,119	539
Russian Federation	501	18
Turkey	363	56
Slovakia	86	26
People's Republic Of China	57	9
Brazil	16	5
<b>Grand Total</b>	<b>665,579,800</b>	<b>74,545,873</b>

## BEER

Country	Net Value	Litres
Canada	166,174,812	54,362,652
U.S.A.	43,982,234	16,911,240
Mexico	23,109,626	6,310,435
Netherlands	21,926,434	5,542,705
Germany	10,621,226	3,119,192
Great Britain	9,699,019	2,675,227
Ireland	5,303,073	1,324,771
Denmark	2,531,860	798,039
Poland	2,339,568	676,233
Czech Republic	2,136,784	647,280
Japan	1,777,908	417,161
People's Republic Of China	768,890	207,769
Italy	559,584	160,841
Jamaica	464,287	127,390
South Africa	375,403	115,037
Trinidad	371,224	95,762
France	361,802	95,602
New Zealand	278,311	83,739
Austria	154,582	46,074
Croatia	166,122	45,139
Belgium	316,003	45,073
Portugal	128,458	36,069
Kenya	126,763	36,054
Cyprus	125,232	27,250
Ukraine	57,026	17,406
Greece	28,077	7,596
Thailand	33,296	7,372
Brazil	27,603	5,001
Switzerland	4,848	605
North Korea	64	27
Australia	4	2
<b>Grand Total</b>	<b>293,950,124</b>	<b>93,944,742</b>

Note: Net value represents net sales, excluding Private Stock sales.  
In fiscal 1997/98, the LCBO sold products from 62 different countries.



## AUDITOR'S REPORT

### To the Liquor Control Board of Ontario and to the Minister of Consumer and Commercial Relations

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 1998 and the statements of income and retained income and of changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario  
June 5, 1998

Erik Peters, FCA  
Provincial Auditor

## BALANCE SHEET

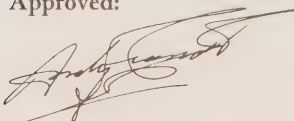
As at March 31, 1998 (in \$000s)

<b>Assets</b>	<b>1998</b>	<b>1997</b>
<b>Current</b>		
Cash and short-term investments (Note 3)	19,029	49,583
Accounts receivable, trade and others	12,446	6,728
Inventories	193,434	193,021
Prepaid expenses	5,811	6,877
	<b>230,720</b>	<b>256,209</b>
<b>Long-term</b>		
Capital assets (Note 4)	132,958	132,037
	<b>363,678</b>	<b>388,246</b>
<b>Liabilities and Retained Income</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	179,175	203,647
Retained income	184,503	184,599
	<b>363,678</b>	<b>388,246</b>

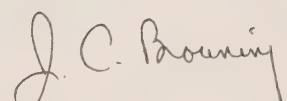
Commitments (Note 5)

See accompanying notes to financial statements.

Approved:



Chair and Chief Executive Officer



Vice President  
Finance and Administration

## STATEMENT OF INCOME AND RETAINED INCOME

Year Ended March 31, 1998 (in \$000s)

	1998	1997
<b>Sales and other income</b>	2,160,843	2,013,873
<b>Costs and expenses</b>		
Cost of sales	1,064,286	988,386
Retail stores and marketing	249,747	235,260
Warehousing and distribution	38,293	38,625
Administration	38,947	28,405
Amortization	24,666	22,167
	<b>1,415,939</b>	<b>1,312,843</b>
<b>Net income for the year</b>	744,904	701,030
<b>Retained income, beginning of year</b>	184,599	213,569
	<b>929,503</b>	<b>914,599</b>
<b>Deduct dividend paid to Province of Ontario</b>	745,000	730,000
<b>Retained income, end of year</b>	<b>184,503</b>	<b>184,599</b>

See accompanying notes to financial statements.

## STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 1998 (in \$000s)

	1998	1997
<b>Cash provided from Operations</b>		
Net income	744,904	701,030
Amortization	24,666	22,167
Gain on sale of capital assets	(63)	—
	<b>769,507</b>	<b>723,197</b>
<b>Change in working capital</b>	(29,537)	49,819
	<b>739,970</b>	<b>773,016</b>
<b>Cash used for investment activities</b>		
Purchase of capital assets	(25,654)	(19,432)
Proceeds from sale of capital assets	130	8
	(25,524)	(19,424)
<b>Cash used for dividend paid to Province</b>	(745,000)	(730,000)
<b>(Decrease) Increase in cash during the year</b>	(30,554)	23,592
<b>Cash and short-term investments, beginning of year</b>	49,583	25,991
<b>Cash and short-term investments, end of year</b>	<b>19,029</b>	<b>49,583</b>

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

As at March 31, 1998

### 1. NATURE OF THE CORPORATION

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Consolidated Revenue Fund in the form of a dividend.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Accounting

The Board's financial statements are prepared in accordance with generally accepted accounting principles.

#### (b) Inventories

At March 31, 1998, inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

#### (c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

### 3. CASH AND SHORT-TERM INVESTMENTS

The Board's investment policy restricts short-term investments to high-liquid, high-grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

Cash and short-term investments include \$13 million (1997 - \$27 million) of investments maturing within one year, yielding 4.95% (1997 - 3.2%) on average, with a market value that approximates carrying value.

### 4. CAPITAL ASSETS

(in \$000s)	1998		1997	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	13,941	—	13,941	13,941
Buildings	237,928	156,447	81,481	83,951
Furniture and Fixtures	32,316	27,477	4,839	4,285
Leasehold Improvements	66,668	50,970	15,698	13,437
Computer Equipment	61,418	44,419	16,999	16,423
	412,271	279,313	132,958	132,037



**5. LEASE COMMITMENTS**

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	(in \$000s)
1999	22,684
2000	18,508
2001	15,621
2002	12,519
2003	8,962
Thereafter	36,593
	<hr/> 114,887

**6. PENSION PLAN**

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Board's expense related to the PSPF and the OPSEU Pension Fund for the year was \$14.4 million (1997 - \$2.5 million) and is included in Costs and expenses in the Statement of Income and Retained Income. The expense increased significantly during the current year due to the termination of the pension holiday provided by the *Ontario Public Service Employees' Union Pension Act, 1994*.

**7. HEDGING**

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 1998 the Board had no forward foreign exchange contracts outstanding (1997 - \$950,000).

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

# The LCBO

## Board of Directors

**ANDREW S. BRANDT: APPOINTED CHAIR AND CHIEF EXECUTIVE OFFICER FEBRUARY 6, 1991.** Re-appointed in March 1997 for an unprecedented third three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. One of Canada's top 200 CEOs, according to the Financial Post magazine, he was named Business Support Person of the Year by the Ontario Grape and Wine Festival in 1997. He has also been appointed an Officer of France's Ordre du Merite Agricole and a Chevalier in the Confrerie des Chevaliers du Tastevin, and was admitted to the roll of the Keepers of the Quaich in Scotland.

**CHANTAL HAAS: APPOINTED VICE-CHAIR MAY 15, 1995.**

Ms. Haas is Managing Partner and National Director, Public Relations, for Bradson Staffing Services Inc. She also participates actively in Toronto's French community. Ms. Haas is currently a Member of the Board of Directors and Past President (two-terms) of Le Cercle canadien de Toronto. She is Chair of the French Chamber of Commerce (Ontario) – the first woman to be elected to that post – and Vice-President, Public Relations, for Women Entrepreneurs of Canada. Ms. Haas is also a National Board Director with the Association of Professional Placement Agencies & Consultants and is a Regional Board Director for the Employment & Staffing Services Association of Canada. She has inspired many young women entrepreneurs through her extensive involvement with the Step Ahead and Step-Up mentoring programs.

**JOHN S. LACEY: APPOINTED JUNE 26, 1996.** Mr. Lacey is a veteran of the retail, hospitality and communications industries, with nearly 35 years of experience with companies such as WIC Western International Communications Ltd., Scott's Hospitality Inc., Molson, Loblaw's, and the Holiday Inn and Marriott hotel chains. Now President and Chief Executive Officer of Oshawa Group Ltd., Mr. Lacey is a graduate of the Harvard Business School who emigrated to Canada in 1978 and became a Canadian citizen in 1983. Mr. Lacey is also a director of Scott's Restaurants Inc., the Family Channel and Canadian Satellite Communications Inc., which he chairs. His community interests include the Centre for Studies of Children at Risk, which is affiliated with McMaster University and Chedoke-McMaster Hospitals.

**JOHN C. HOPPER: APPOINTED SEPTEMBER 8, 1997.** A native of Ottawa, Mr. Hopper began work in automobile sales there in 1963. He moved to North Bay in 1971 to establish John C. Hopper Pontiac Buick, and is today President of Hopper Automobile Ltd., and President and Dealer Principal of Saturn of North Bay. He was a founding member of the North Bay Automobile Dealers Association and the Northern Ontario Automobile Dealers Association, and past president of the Ontario Automobile Dealers Association. A former North Bay City councillor, he has a long history of community service: he's a member of North Bay Masonic Lodge, a member and past president of both the Rorab Shrine Club and North Bay Kiwanis Club; a member of the Northern Ontario Cancer Research Foundation; Honourary Chair of the Kidney Foundation, North Bay Chapter; and chaired the \$7,000,000 fund raising committee for the Partners for Life Hospital campaign. He was the Kiwanis Club's Citizen of the Year in 1993.

**RICHARD LING: APPOINTED SEPTEMBER 8, 1997.** Before becoming Resident Principal of Borden & Elliot's York Region Office, lawyer Richard Ling was Senior Partner in the firm Ling & Wong; Managing Director of Lehndorff Asia Inc.; and Resident Counsel for Graham & James in Beijing. The Chinese-born Willowdale resident speaks five languages, and is well versed in banking, real estate and corporate practice. Mr. Ling has lived in China, Japan, France, Germany and the U.S. And as a bank employee, before becoming a lawyer, he lived all across Ontario: in St. Catharines, Thorold, Lindsay, Bowmanville and Kitchener. He is on the Board of Governors

The Directors of the LCBO, like those of other provincial government agencies, boards and commissions, are appointed by the sitting government through Order-in-Council. Appointments, up to five years, are sometimes renewed.

of Sheridan College, and a former Director of St. Michael's Hospital Foundation Board; the Richmond Hill & Markham Chinese Business Association; Mon Sheong Home for the Aged; and the Chinese Cultural Centre of Greater Toronto.

**DICK DOLPHIN: APPOINTED OCTOBER 7, 1997.** A Fellow of the Institute of Chartered Accountants of Ontario, Mr. Dolphin recently retired from financial services giant KPMG, for whom he'd worked for 23 years. He spent many of those years as managing partner of its Thunder Bay office, practising his specialty of municipal finance. Mr. Dolphin spent six years as a director of the Thunder Bay Chamber of Commerce, including one year as president, and is currently 2nd vice-chair of the Ontario Chamber of Commerce. He served on Thunder Bay's St. Joseph's Hospital Board in several capacities between 1986 and 1991, including a term as Chair of its Finance and Audit Committee. He was also a member of the Port Arthur Rotary Club from 1984 to 1997. Mr. Dolphin now resides in Peterborough, where he owns and operates the consulting firm Dick Dolphin & Associates.

**MERLE A. JACOBS: APPOINTED DECEMBER 17, 1997.** Ms. Jacobs began her career as a nurse, eventually becoming a nurse manager in the department of psychiatry at North York Branson Hospital. Over nearly 30 years in the field, she has also pursued her education, and has now completed a Diploma in Nursing, a Bachelor of Arts degree, a Master's, and all the course work for a Ph.D. in Sociology at York University. Her professional experience and studies have shared a focus on mental health, as does much

of her extensive volunteer work. She has served on the Board of Toronto's Queen Street Mental Health Centre and the North York Chapter of the Canadian Mental Health Association. She is also a director of Roots Cultural Foundation and Royal Business Training Centre. As director and owner of the Lawrence Avenue Centre for Eating Disorders, Ms. Jacobs has also developed her business planning and budgeting skills, as well as her knowledge of human resources issues.





As at March 31, 1998

# LCBO Useful Facts

## THE MARKETPLACE

<b>596</b>	Number of LCBO stores serving communities across Ontario
<b>97</b>	Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store
<b>1,269</b>	Number of Beer Stores, Ontario winery stores, U-Brews, U-Vints, on-site distillery and brewery outlets and privately-operated duty-free stores, all of which compete with the LCBO
<b>39</b>	Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO
<b>\$6.4 billion</b>	Total estimated value of Ontario's beverage alcohol market
<b>\$584 million</b>	Estimated value of Ontario's illegal alcohol market

## OUR STORES

<b>3</b>	Number of LCBO stores offering more than 2,500 brands for sale
<b>144</b>	Number of LCBO stores offering 1,500 – 2,500 brands for sale
<b>164</b>	Number of LCBO stores offering 1,000 – 1,500 brands for sale
<b>218</b>	Number of LCBO stores offering 500 – 1,000 brands for sale
<b>69</b>	Number of LCBO stores offering fewer than 500 brands for sale
<b>7,723</b>	Number of product tastings conducted in LCBO stores in fiscal 1997-98
<b>7</b>	Number of days per week most LCBO stores are open
<b>77 million</b>	Total number of transactions in LCBO stores in fiscal 1997-98
<b>19</b>	Percentage of all LCBO transactions paid by debit card
<b>14</b>	Percentage of all LCBO transactions paid by credit card
<b>11.4 million</b>	Number of AIR MILES earned by LCBO customers from August, 1997 through March 31, 1998

## OUR FINANCIAL PERFORMANCE

<b>\$2.16 billion</b>	The LCBO's net sales and other income in fiscal 1997-98
<b>\$745 million</b>	Dividend the LCBO transferred to the Government of Ontario for fiscal 1997-98 (excluding taxes)
<b>\$2.155 billion</b>	Amount the LCBO has transferred to the Consolidated Revenue Fund the last three fiscal years combined (excluding taxes)
<b>404</b>	Percentage return on taxpayers' equity in fiscal 1997-98
<b>35</b>	The LCBO's profit margin, expressed as a percentage, in fiscal 1997-98
<b>16</b>	The LCBO's operational expenses as a percentage of net income for fiscal 1997-98 (down from 19 per cent in fiscal 1993-94)
<b>\$202 million</b>	Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) in fiscal 1997-98
<b>\$316 million</b>	Amount the LCBO transferred to the federal government in GST, excise taxes and Customs duties in 1997-98
<b>\$10 million</b>	Amount the LCBO spent on capital improvements to its stores (renovations, relocations, etc.) in 1997-98

# Statistical Insert

for LCBO Annual Report, Fiscal 1997-1998

## PRODUCT LISTINGS

	1994	1995	1996	1997	1998
<b>Domestic</b>					
Canadian Whisky	125	103	99	94	100
Canadian Blended Rums	90	69	64	68	73
Canadian Gin	26	16	14	17	16
Canadian Vodka	52	50	47	45	46
Canadian Brandy	4	4	4	6	6
Canadian Blended Brandy	12	12	14	8	8
Canadian Spirit Coolers	21	31	25	38	29
Fruit Spirits	4	3	3	1	1
Miscellaneous Liquors	11	7	6	26	25
Canadian Liqueurs	87	66	57	47	43
Ontario Wines	400	420	421	403	378
Ontario Wine Coolers	15	14	11	7	5
Other Canadian Wines	10	16	14	10	25
Canadian Cider	6	7	9	17	14
Canadian Beer (incl. Beer Coolers)	289	311	316	295	326
Alcohol	6	6	6	0	0
Miniatures	9	9	10	8	5
Bitters	3	3	3	3	3
<b>Imported</b>					
Scotch Whisky	68	63	58	69	76
Irish Whiskey	3	4	4	3	3
American Whiskey	5	5	5	10	10
Gin	15	16	16	10	10
Rum	13	10	9	11	10
Vodka	20	19	22	23	24
Tequila	6	9	8	11	9
Brandy	55	31	43	45	47
Fruit Spirits	2	10	2	2	3
Miscellaneous Liquors	13	7	4	11	53
Liqueurs	59	73	77	76	91
Wines	806	874	873	839	870
Beer and Sake	81	92	89	102	97
Miniatures	11	12	19	24	19
Coolers	3	6	19	12	9
Bitters	6	11	6	8	8
Total Regular Listings	2,336	2,389	2,377	2,349	2,442
Vintages Wines and Spirits	1,223	1,987	2,368	2,744	3,037
Duty-Free Listings	170	182	207	205	213
Consignment Warehouse and Private Stock	3,106	3,515	4,249	4,573	5,240
Total Product Listings	6,835	8,073	9,201	9,871	10,932

Note: Consignment Warehouse and Private Stock product listings are estimates based on invoices produced by Specialty Services.



## SALES CHANNEL SUMMARY

(values in \$000s)

LCBO	1994	1995	1996	1997	1998
Retail Sales	1,731,071	1,740,387	1,827,840	1,923,750	2,022,638
Licensee Sales	276,306	288,956	297,233	314,652	347,083
Agency Sales	15,824	17,005	20,329	22,643	25,059
Duty-Free/Warehouse	12,137	12,640	15,108	17,349	17,318
Duty-Free/LCBO	8,979	9,869	11,425	12,156	13,367
BRI Sales	7,866	29,729	40,150	48,920	64,891
Other Sales	2,808	3,366	3,438	3,528	3,579
<b>Total</b>	<b>2,054,991</b>	<b>2,101,952</b>	<b>2,215,523</b>	<b>2,342,998</b>	<b>2,493,935</b>

### Brewers Retail Inc.

Retail & Licensee Sales	1,910,584	1,951,825	2,060,219	2,075,664	2,114,467
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### Winery Stores

Retail Sales	81,297	99,233	113,320	126,446	136,618
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### Other Channels

#### Legal:

Cross-Border Exempt	171,703	147,538	148,305	141,372	230,874
Cross-Border Declared	2,346	1,599	2,333	2,524	3,054
Brew Pubs	2,570	2,976	2,496	1,467	1,737
Wine Pubs	422	489	448	437	535
U-Brew-Beer	141,305	142,413	110,771	151,482	149,534
U-Brew-Wine	34,400	39,124	16,206	502,050	549,952
<b>Total</b>	<b>352,746</b>	<b>334,139</b>	<b>280,559</b>	<b>799,332</b>	<b>935,686</b>

#### Homemade:

Wine	101,279	99,991	112,855	122,409	44,071
Beer	10,704	13,939	14,974	16,122	16,847
<b>Total</b>	<b>111,983</b>	<b>113,930</b>	<b>127,829</b>	<b>138,531</b>	<b>60,918</b>

<b>De-alcoholized Beer</b>	15,069	19,600	22,540	24,140	25,854
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#### Illegal:

Smuggling	549,132	534,132	490,372	421,443	393,991
Wine Manufacturing	245,965	250,944	284,202	223,029	189,789
<b>Total</b>	<b>795,097</b>	<b>785,076</b>	<b>774,574</b>	<b>644,472</b>	<b>583,780</b>
<b>Grand Total</b>	<b>5,321,767</b>	<b>5,405,755</b>	<b>5,594,564</b>	<b>6,151,583</b>	<b>6,351,258</b>

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail Inc. and Winery Store sales data were supplied by the Brewers of Ontario and individual wineries.

## RETAIL PRICE BREAKDOWNS

### Spirits

*Examples as at March 31, 1998 for 750 mL bottle in Canadian Dollars*

	Imported U.S.	Imported Non-U.S.	Domestic
Payment to Supplier	\$3.0400	\$3.3600	\$3.3800
Federal Excise Tax	\$3.3198	\$3.3198	\$3.3198
Federal Import Duty	\$0.0000	\$0.0175	\$0.0000
Freight	\$0.2775	\$0.1640	\$0.0466
<b>Total Landed Cost</b>	<b>\$6.6373</b>	<b>\$6.8613</b>	<b>\$6.7464</b>
LCBO Mark-up	\$9.6307	\$9.9489	\$9.3100
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0252	\$0.0258	\$0.0168
<b>Basic Price</b>	<b>\$16.60</b>	<b>\$17.14</b>	<b>\$16.38</b>
Goods and Services Tax	\$1.16	\$1.20	\$1.15
Provincial Retail Sales Tax	\$1.99	\$2.06	\$1.97
<b>Consumer Price</b>	<b>\$19.75</b>	<b>\$20.40</b>	<b>\$19.50</b>

#### Revenue Distribution

Supplier (including freight)	\$3.32	\$3.52	\$3.43
Government of Canada	\$4.48	\$4.54	\$4.47
Government of Ontario	\$11.95	\$12.34	\$11.60

### Wines

*Examples as at March 31, 1998 for 750 mL bottle in Canadian Dollars*

	Imported U.S.	Imported Non-U.S.	Domestic 100% Ont.
Payment to Supplier	\$2.4500	\$2.4500	\$2.4500
Federal Excise Tax	\$0.3842	\$0.3842	\$0.3842
Federal Import Duty	\$0.0000	\$0.0297	\$0.0000
Freight	\$0.1669	\$0.2038	\$0.0000
<b>Total Landed Cost</b>	<b>\$3.0011</b>	<b>\$3.0677</b>	<b>\$2.8342</b>
LCBO Mark-up	\$1.9207	\$1.9633	\$1.6438
LCBO Wine Levy	\$1.1250	\$1.1250	\$1.1250
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0330	\$0.0079	\$0.0146
<b>Basic Price</b>	<b>\$6.39</b>	<b>\$6.47</b>	<b>\$5.92</b>
Goods and Services Tax	\$0.45	\$0.45	\$0.42
Provincial Retail Sales Tax	\$0.76	\$0.78	\$0.71
<b>Consumer Price</b>	<b>\$7.60</b>	<b>\$7.70</b>	<b>\$7.05</b>

#### Revenue Distribution

Supplier (including freight)	\$2.62	\$2.65	\$2.45
Government of Canada	\$0.83	\$0.87	\$0.80
Government of Ontario	\$4.15	\$4.18	\$3.80

## Beer

*Examples as at March 31, 1998 for a case of 24 x 341 mL bottles in Canadian Dollars*

	Imported U.S.	Imported Non-U.S.	Domestic
Payment to Supplier	\$5.9376	\$8.6400	\$9.8000
Federal Excise Tax	\$2.2903	\$2.2903	\$2.2903
Federal Import Duty	\$0.0000	\$0.2373	\$0.0000
Freight	\$0.6400	\$2.5400	\$0.3800
<b>Total Landed Cost</b>	<b>\$8.8679</b>	<b>\$13.7076</b>	<b>\$12.4703</b>
LCBO In-store COS	\$4.9595	\$4.9595	\$4.9595
LCBO Out-of-store COS	\$1.3422	\$1.3422	\$0.0000
LCBO Mark-up	\$4.0920	\$4.0920	\$4.0920
LCBO Bottle Levy	\$1.4404	\$1.4404	\$1.4404
LCBO Environment Fee	\$0.0000	\$0.0000	\$0.0000
LCBO Rounding Revenue	\$0.0123	\$0.0046	\$0.0210
<b>Basic Price</b>	<b>\$20.71</b>	<b>\$25.55</b>	<b>\$22.98</b>
Goods and Services Tax	\$1.45	\$1.79	\$1.61
Provincial Retail Sales Tax	\$2.49	\$3.06	\$2.76
Container Deposit	\$2.40	\$2.40	\$2.40
<b>Consumer Price</b>	<b>\$27.05</b>	<b>\$32.80</b>	<b>\$29.75</b>
Supplier (including freight)	\$6.58	\$11.18	\$10.18
Government of Canada	\$3.74	\$4.32	\$3.90
Government of Ontario	\$14.33	\$14.90	\$13.27
Container Deposit	\$2.40	\$2.40	\$2.40

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.



## ELEVEN-YEAR FINANCIAL PERFORMANCE REVIEW

(values in \$000s)

	1998	1997	1996	1995	1994
<b>Statement of Earnings</b>					
Sales and Other Income	\$2,160,843	\$2,013,873	\$1,909,804	\$1,808,518	\$1,764,731
Cost of Sales	\$1,064,286	\$988,386	\$919,268	\$858,190	\$832,106
Gross Profit	\$1,096,557	\$1,025,487	\$990,536	\$950,328	\$932,625
Per Cent	50.75%	50.92%	51.87%	52.55%	52.85%
Operating Expenses	\$351,653	\$324,457	\$323,819	\$313,029	\$333,716
Net Income	\$744,904	\$701,030	\$666,717	\$637,299	\$598,909

### Statement of Cash Flow

Cash Flow from Operations	\$769,507	\$723,197	\$687,663	\$655,198	\$619,979
Change in Working Capital	(\$29,537)	\$49,819	\$9,659	\$5,473	(\$15,824)
Cash Used for Investing Activities	(\$25,524)	(\$19,424)	(\$26,256)	(\$26,895)	(\$14,753)
Cash Used for Provincial Transfers	(\$745,000)	(\$730,000)	(\$680,000)	(\$630,000)	(\$585,000)
Decrease/Increase in Cash During the Year	(\$30,554)	\$23,592	(\$8,934)	\$3,776	\$4,402

### Financial Position

Current Assets	\$230,720	\$256,209	\$239,516	\$229,541	\$201,204
Current Liabilities	\$179,175	\$203,647	\$160,727	\$132,159	\$92,813
Working Capital	\$51,545	\$52,562	\$78,789	\$97,382	\$108,391
Fixed Assets	\$132,958	\$132,037	\$134,780	\$129,470	\$120,474
Total Assets	\$363,678	\$388,246	\$374,296	\$359,011	\$321,678

### Financial Ratios

Profit Margin	35.03%	35.11%	35.33%	35.61%	34.24%
Return on Shareholders' Equity	403.63%	352.13%	302.76%	285.63%	269.90%
Current Ratio	1.29	1.26	1.49	1.74	2.17

### Statistics

Inventory Turnover	5.53	5.02	5.07	4.92	5.02
Number of Permanent Employees	2,934	2,828	2,803	2,824	2,743
Sales per Employee	\$725	\$706	\$673	\$634	\$638
Number of Stores	596	595	596	597	600
Number of Regular Products Listed	2,442	2,349	2,377	2,389	2,336

Note: Sales per Employee have been restated to reflect values in thousands of dollars.

1993	1992	1991	1990	1989	1988
------	------	------	------	------	------

### Statement of Earnings

\$1,786,479	\$1,833,386	\$1,936,710	\$2,006,975	\$1,930,319	\$1,867,684
\$841,060	\$851,539	\$967,221	\$1,012,938	\$994,294	\$968,472
\$945,419	\$981,847	\$969,489	\$994,037	\$936,025	\$899,212
52.92%	53.55%	50.06%	49.53%	48.49%	48.15%
\$332,953	\$332,439	\$326,682	\$311,707	\$275,580	\$258,185
\$612,466	\$652,458	\$652,669	\$692,083	\$664,124	\$640,827

### Statement of Cash Flow

\$635,298	\$675,162	\$672,558	\$707,223	\$675,892	\$650,995
(\$8,694)	\$6,162	\$48,775	(\$29,481)	\$29,933	(\$23,430)
(\$21,075)	(\$25,754)	(\$29,751)	(\$23,784)	(\$15,447)	(\$9,968)
(\$615,000)	(\$675,000)	(\$650,000)	(\$640,000)	(\$645,000)	(\$635,000)
(\$9,471)	(\$19,430)	\$41,582	\$13,958	\$45,378	(\$17,403)

### Financial Position

\$192,955	\$207,155	\$231,212	\$219,752	\$179,400	\$192,904
\$104,789	\$118,212	\$116,677	\$98,024	\$101,111	\$130,060
\$88,166	\$88,943	\$114,535	\$121,728	\$78,289	\$62,844
\$126,790	\$130,564	\$131,161	\$122,322	\$118,008	n/a
\$319,745	\$337,719	\$362,373	\$342,074	\$297,408	n/a

### Financial Ratios

34.36%	36.04%	33.96%	34.70%	34.54%	34.45%
281.94%	-- 280.50%	266.53%	314.34%	n/a	n/a
1.84	1.75	1.98	2.24	1.77	1.48

### Statistics

4.70	4.72	4.79	4.88	5.56	4.99
3,100	3,233	3,305	3,484	3,396	3,460
\$575	\$560	\$581	\$572	\$566	\$538
611	618	621	623	626	623
2,302	2,390	2,570	2,825	2,974	2,814

❖ LCB0



## PRODUCTS AND PRICING

10,932	Number of products available through LCBO stores, catalogues and private ordering service in fiscal 1997-98
2,812	Number of new Vintages products offered in stores and through the <i>Classics Catalogue</i> in fiscal 1997-98
62	Number of countries from which the LCBO buys its products
752	Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program
857	Number of products that carried a "value-add" bonus item in 1997-98
82	Percentage of domestic spirit prices made up of federal and provincial taxes
65	Percentage of domestic wine prices made up of federal and provincial taxes
66	Percentage of domestic beer prices made up of federal and provincial taxes

## OUR EMPLOYEES

2,934	Number of permanent full-time LCBO employees
69	Number of LCBO product consultants available to offer expert advice to customers
4,119	Number of LCBO Retail staff who have passed the highest level of our three-level Product Knowledge Correspondence Course to date
5,052	Number of LCBO Retail staff who have received training to date to help prevent service to minors or people who appear intoxicated
89	Rating, out of 100, given to LCBO employees for product knowledge in a recent customer survey
123,000	Number of calls handled by LCBO Infoline officers in calendar 1997

## OUR FUNDRAISING

\$156,000	Amount raised by LCBO employees for the United Way in 1997 – \$41,000 over goal.
1	Ranking of LCBO among government fundraisers for the United Way
\$245,970	Amount raised for charity through donation boxes in LCBO in calendar 1997
\$94,000	Amount raised for ice storm victims in January, 1998

## SOCIAL RESPONSIBILITY

648,092	Number of customers challenged for proof of age or sobriety by LCBO staff in fiscal 1997-98
81,427	Number refused service by LCBO employees in fiscal 1997-98
3,734	Number of BYID tamper-resistant identification cards issued by the LCBO during fiscal 1997-98

## QUALITY ASSURANCE

203,901	Number of product tests carried out in 1997 by LCBO's Quality Assurance Laboratory
397	Number of products rejected by Quality Assurance in 1997 for health concerns, consumer safety issues and other quality control problems
1,122	Number of seized products tested for enforcement purposes by Quality Assurance in 1997
1	Number of product recalls issued by Quality Assurance in 1997



For more information about LCBO products  
and services, visit us on the Internet at

[www.lcbo.com](http://www.lcbo.com) and [www.vintages.com](http://www.vintages.com)

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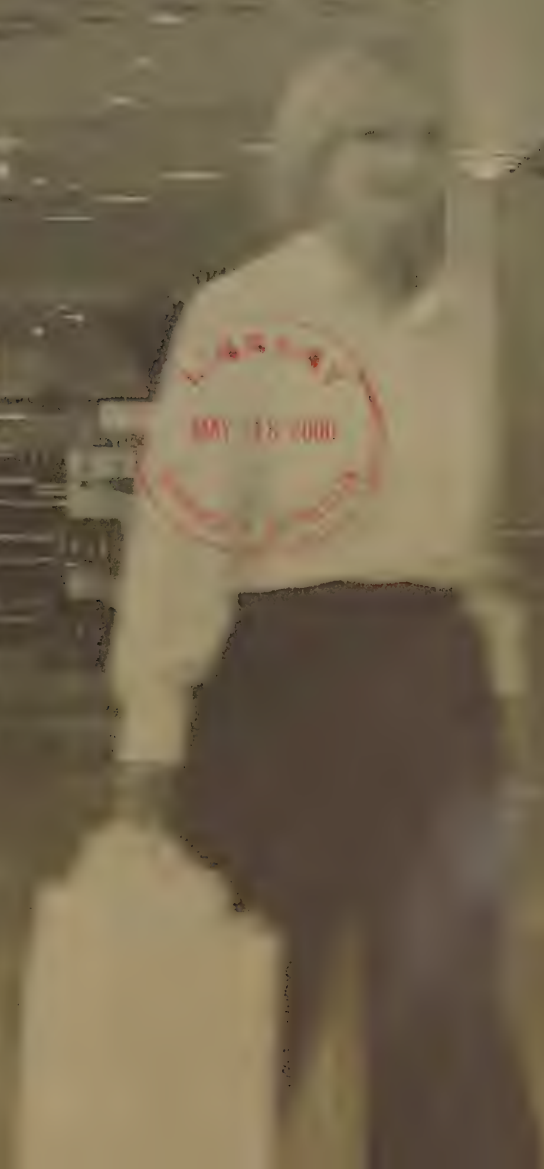
LCBO

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LCBO ANNUAL REPORT 1998-1999

# Success Story

Our  
fourth  
straight  
record year





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## LCBO BOARD OF DIRECTORS DURING FISCAL 1998-99

## LETTER OF TRANSMITTAL

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Andrew S. Brandt  
*Chair and Chief Executive Officer*

Chantal Haas, *Vice Chair*  
*Member, Audit Committee*

Dick Dolphin, *Member*  
*Chair, Audit Committee*

John C. Hopper, *Member*

Merle A. Jacobs, *Member*

John S. Lacey, *Member*  
*Member, Audit Committee*

Richard Ling, *Member*

Larry C. Gee  
*Executive Vice President*

The Hon. Robert W. Runciman  
Minister of Consumer and Commercial Relations

Dear Minister,  
I have the honour to present you with the 1998-99 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,



Andrew S. Brandt  
*Chair and CEO*

The LCBO wishes to thank the Office of the Provincial Auditor and the Audit Committee of the Board for their assistance in preparing this document.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Economic Development. French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre :  
Rapport annuel de la LCBO  
1998-99.

On the cover: the LCBO's new  
flagship store in Bayview Village Plaza,  
Canada's largest liquor store.





## A MESSAGE FROM THE MINISTER

I am pleased to provide you with the LCBO 1998-99 Annual Report.

Our government is committed to providing excellent public services and value for the taxpayers of Ontario. Since 1995, we have worked hard to improve the quality and efficiency of all government operations, including Crown agencies like the Liquor Control Board of Ontario. Each government enterprise is being reviewed — and the results are showing. Ministries and agencies are operating more efficiently and more effectively than ever.

The LCBO is certainly no exception — it is transforming itself into a modern retailer. LCBO customers are finding a new and improved retail experience, helpful assistance from knowledgeable staff, and a whole range of services that were not available five years ago. Where beverage alcohol is concerned, however, it's not enough to just provide excellent service. The LCBO is also our standard-bearer for socially responsible alcohol sales. Last year staff at the LCBO checked nearly 835,000 customers under their Challenge and Refusal program.

On top of all that, the LCBO produced a \$780 million dividend for the provincial Treasury in 1998-99, its fourth record dividend in a row. Combined with the \$220.6 million in Provincial Sales Tax that the agency collected, slightly more than \$1 billion was transferred from the LCBO to the Treasury last year, to help the province pay for roads, schools, hospitals and other important social and infrastructure projects.

The LCBO, its staff and Board of Directors have worked hard to deliver better customer service and more efficient operations. As the Minister responsible for the LCBO, it is my commitment to you to ensure that the LCBO continues to serve you well.

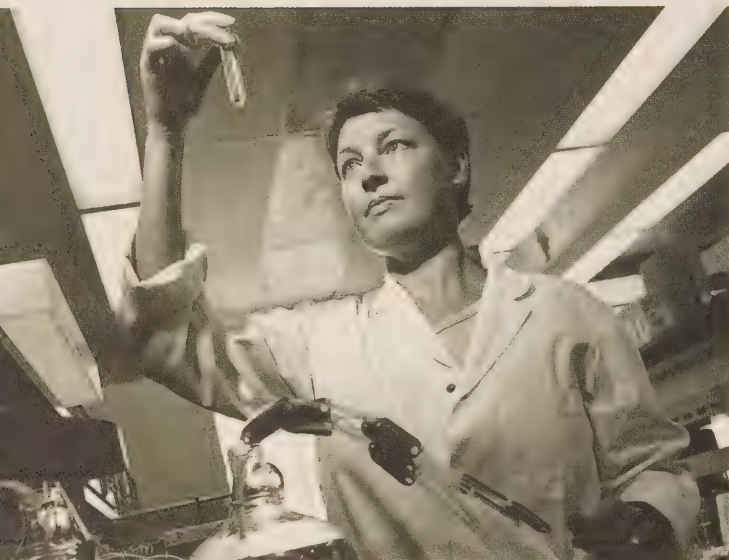
Sincerely,

A handwritten signature in dark ink, appearing to read 'R. Runciman'.

Robert W. Runciman  
MPP, Leeds-Grenville  
Minister of Consumer and Commercial Relations

September, 1999

# The LCBO at a glance



*Senior Laboratory Technician Nadine Salij is part of the Quality Assurance team that helps ensure all products sold by the LCBO and Brewers Retail stores comply with the federal Food and Drug Act, as well as the LCBO's high standards for quality and taste. The lab also assists in testing of suspected illegal alcohol.*

## **The Liquor Control Board of Ontario regulates the production, importation, distribution and sale of alcoholic beverages in Ontario.**

The LCBO is the largest single retailer of beverage alcohol in the world, buying wine, spirits and beer from more than 60 countries for Ontario consumers and licensees.

To provide this service, the LCBO operates five regional warehouses that supply 600 stores across Ontario. Through this integrated distribution and retailing network, nearly 6,000 quality products are available to consumers, including wine, beer, spirits, coolers and accessories.

The LCBO also operates four stand-alone Vintages stores, which offer consumers a wide selection of fine wines, premium spirits and specialty beers. Vintages products are also available in nine Vintages boutiques and over 140 sections in regular LCBO stores. They can also be ordered through any LCBO outlet. An additional 500 premium products can be ordered from each edition of the *Vintages Classics Catalogue*, which is published three times a year.

Customers can also obtain many other products not regularly listed in Ontario through the LCBO Private Stock ordering program.

In partnership with the LCBO, established retailers operate 102 agency stores in communities without large enough population bases to support regular LCBO stores.

The LCBO also regulates the sale of products through 428 Brewers Retail stores, 39 on-site brewery stores, 341 winery stores, two distillery stores, 11 land border-point duty-free stores and duty-free operations at Pearson International Airport and Ottawa International Airport.

In the interests of consumer protection, the LCBO conducted more than 260,000 tests on 12,000 different alcoholic beverages during the year. This Quality Assurance testing ensures that all products sold by the LCBO and Brewers Retail stores comply with the federal *Food and Drug Act*, as well as the LCBO's high standards for quality and taste.

**For further information about LCBO products and services, call the LCBO toll-free Infoline at 1-800-ONT-LCBO (668-5226). In Metropolitan Toronto, call (416) 365-5900 or visit the LCBO's two Internet sites: [www.lcbo.com](http://www.lcbo.com) (our corporate home page), and [www.vintages.com](http://www.vintages.com) (the Vintages home page).**



Under the *Liquor Control Act*, we're required to submit a report to the Minister of Consumer and Commercial Relations. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace. We've tried to make the report easy to use and understand by: ■ using plain language ■ including glossaries to explain technical and financial terms ■ including a section called "How to Read this Report".

# How to read this report

**This section expands on the table of contents to help you get the most from this report. We've also included two glossaries for easy reference. The first is a list of technical terms that we use at the LCBO to describe our operations; the second explains financial terms used in the text.**

*LCBO at a Glance* gives you a quick overview of the LCBO – its mandate, number of stores and different types of retail outlets, as well as its distribution network.

*Corporate Governance* tells you about the structure of the LCBO, including the role of the Board of Directors, committee titles and mandates, and an explanation of the relationship between the LCBO and the Ontario Government.

*Chair's Remarks* provides context and perspective on the details elsewhere in the annual report. Look here for information about:

- LCBO's strategic direction
- contributing factors to successful initiatives
- any anticipated challenges ahead.

*Beyond the Numbers: Management's Discussion and Analysis* contains a detailed discussion of LCBO's financial performance. Look here to find:

- how LCBO sales compare to other liquor jurisdictions
- how sales were distributed by retail region
- and explanations of items in the income statement, balance sheet, and statement of changes in financial position.

*Product Trends* discusses how our three major product categories (Spirits, Wines and Beers & Special Markets) fared in 1998-99, and their outlook for 1999-2000.

*Public Sector Disclosure Act* lists all LCBO employees making \$100,000 or more per annum.

*Bigger is Better at Bayview* takes readers through our new flagship store in Bayview Village Plaza – now Canada's largest liquor store – and discusses the benefits of other planned changes to the LCBO store network.

*Taking the Lead in Social Responsibility* gives an overview of the initiatives undertaken by the LCBO to promote the responsible use of beverage alcohol, and the many other ways in which it serves the community.

*Board of Directors* shows you pictures and profiles of our Directors.

*LCBO Useful Facts* is a compilation of interesting facts and figures about LCBO operations.

*Income Statement, Balance Sheet and Statement of Changes in Financial Position* contain the financial statistics for the 1998-99 fiscal year.

*Statistical Insert* contains more detailed financial data on LCBO operations, including 11-year trends.

# Glossary of terms

**Agency stores:** operated by established retailers in communities without the population to support regular LCBO or Beer Stores. At the end of fiscal 1998-99, there were 102 agency stores, most in Northern Ontario.

**AIR MILES Rewards:** a loyalty program operated in Canada by Loyalty Management Group Canada Inc. that allows participating LCBO customers to earn travel and other rewards – such as movie passes, car rentals or long distance calls – by making purchases from the LCBO and other participating sponsors. AIR MILES is a trademark of AIR MILES International Holdings N.V., used under licence by Loyalty Management Group Canada Inc.

**Brewers Retail Inc. (BRI):** a private company owned by three Ontario brewers (Labatt, Molson and Sleeman), authorized by the LCBO to sell domestic and foreign beer and related merchandise through 428 Beer Stores located in 227 communities across Ontario.

**Brewery store (on-site):** a retail store authorized by the LCBO and operated by a brewer at its manufacturing site. There are 39 on-site brewery stores.

**BYID (Bring Your Identification) card:** a tamper-resistant photo ID card issued by the LCBO, and accepted as valid proof of age in all LCBO and BRI stores and licensed establishments. Cards can be obtained with proper identification and a \$15 fee. Applications are available at all LCBO stores.

**(BYO) Bottle-your-own/bulk wine store:** a pilot LCBO retail store at the Crossroads shopping centre in Toronto that offers customers the opportunity to bottle and cork wine from tanks set up in the store.

**Challenge and Refusal:** an LCBO social responsibility program in all stores that helps ensure beverage alcohol is not sold to minors, to persons who are intoxicated, or to anyone making purchases on behalf of these two groups.

**Check 25:** the LCBO social responsibility program whereby anyone appearing to be under the age of 25 is routinely asked for identification by retail staff.

**Classics Catalogue:** published three times a year by Vintages, each edition offers hundreds of premium quality spir-its, critically acclaimed wines from older vintages and sought-after selections from smaller producers and estates.

**Combination or “combo” stores:** these sell a full variety of domestic beer in every size, as well as regular LCBO products. This format originated as a customer service initiative in smaller, usually rural communities where there are no Beer Stores. Regular LCBO stores only sell six-packs of selected domestic and imported beer.

**Consignment Warehouse:** this program allows agents/suppliers to bring products not listed for sale at LCBO retail stores, to an LCBO warehouse to be held for sale. Licensed suppliers’ agents are responsible for finding buyers for these products; suppliers are not paid until the product is sold.

**CSR:** an LCBO Customer Service Representative, trained to offer helpful, knowledgeable and socially responsible service.

**Depots:** wholesale stores servicing licensees and beverage alcohol trade representatives. The five urban LCBO depot stores are not open to the public.

**Diplomatic discount:** discount on beverage alcohol provided by the LCBO to foreign diplomatic institutions in Ontario accredited by the federal Department of Foreign Affairs and International Trade, comparable to discounts that foreign governments provide to Canadian diplomatic institutions abroad.

**Distillery store (on-site):** a retail store authorized by the LCBO and operated by a distiller at its manufacturing site. There are two on-site distillery stores.

**Duty-free shop:** a retail shop located at an international airport in Ontario, or a bridge, tunnel or land-border exit from Ontario, licensed by Revenue Canada to sell items free of duties and taxes, and authorized by the LCBO to sell beverage alcohol. Duty-free shops are regulated, as regards the sale of beverage alcohol, by the LCBO.

**Food & Drink:** the LCBO’s free magazine that helps customers entertain responsibly and with ease.

**Fortified wine:** wine whose alcohol level has been “fortified” (up to 20 per cent) by the addition of spirit (e.g., Port, Sherry and Madeira).

**General List:** a list of products regularly available in LCBO stores.

**Icewine:** a dessert wine made from grapes – most often Vidal or Riesling – left on the vine until they freeze solid. Once the grapes are picked, ice crystals are removed, leaving behind an intensely sweet, concentrated juice often called “liquid gold.” Ontario icewines are widely considered the best in the world, winning award after award in open competitions.



**IMAGE program:** provides LCBO suppliers the opportunity to purchase display space to promote their products in selected stores during 13 four-week periods.

**Information Library:** an on-line “data warehouse” launched in fiscal 1998-99, which enables users to access sales data and other information needed to make informed business decisions.

**LCBO Private Stock Program:** enables LCBO customers to obtain beverage alcohol products that may not be listed for sale in LCBO retail stores. Individuals can order case lots from anywhere in the world as long as the supplier will ship them to the LCBO.

**Licensee:** the holder of a licence to sell beverage alcohol to the public at licensed premises, issued by the Alcohol and Gaming Commission of Ontario under the *Liquor Licence Act*.

**Limited Time Offers (LTOs):** month-long price discounts of up to 20 per cent on selected beverage alcohol products.

**Liquor Control Act:** provincial legislation passed in 1927 that gives the LCBO broad powers to control the transportation, sale and delivery of beverage alcohol in Ontario.

**Microbrewery:** a brewery that produces less than 100,000 hectolitres of beer annually.

**POS:** the point-of-sale system used in LCBO stores. It helps speed up every sales transaction in LCBO stores; transmits vital information on inventory movement to Head Office; and facilitates debit/credit authorization and other interfaces with financial institutions. New full-screen displays also help promote customer services, such as the AIR MILES Rewards program, and transmit social responsibility messages.

**Product Consultants:** LCBO employees whose expert knowledge of wines, spirits and beers helps them inform customers and colleagues about every aspect of beverage alcohol.

#### Product Knowledge

**Correspondence Course:** a three-level employee training program that's mandatory for all LCBO retail staff. The program is also available to the public at a cost of \$80.

**Quality Assurance:** the department of the LCBO responsible for ensuring the products in its stores are laboratory-tested and safe to consume. It also conducts chemical tests and taste assessments for outside agencies, such as other beverage alcohol regulators or retailers or the Vintners Quality Alliance [see VQA below] and assists in investigations of the sale of illegal alcohol.

**Refreshment flavoured wine beverages:** Varietal wines mixed with essences of fruit and/or lightly carbonated.

**Segmentation study:** LCBO market research that divides shoppers into distinct segments according to demographics and lifestyles, designed to help the LCBO develop appropriate products and services for each.

**Single Malt:** a type of Scotch whisky made in a single distillery, in a pot still, with malted barley as the principal ingredient.

**SMAART (Strategies for Managing Age and Alcohol-Related Troubles):** LCBO's comprehensive video-based training program designed to educate staff about responsible service and related judgement calls, alcohol issues and how to handle problem customers. All employees who serve the public are required to take SMAART training.

**Spirit cooler:** a mixture of spirits and soft drinks or fruit juices. Wine- and beer-based coolers are also sold in LCBO stores.

**Special Occasion Permit:** a one-time permit – issued under the *Liquor Licence Act* by the Alcohol and Gaming Commission of Ontario and available in selected LCBO stores – that allows holders to serve or sell beverage alcohol at a specific location which is not a licensed establishment or a private place or residence.

**Supply Chain Management:** this term applies to all components of the product ordering and delivery system from the time orders are placed with suppliers to when the product arrives on store shelves.

**That's the Spirit:** a training program created and implemented jointly by the LCBO and Ontario's distillers to help make retail employees more knowledgeable about spirits, and more comfortable advising customers on ways to entertain with them.

**U-Brew:** a privately operated service outlet that provides customers with ingredients, equipment and expertise to make their own beer at the shop. These outlets do not require or receive the LCBO's authorization to operate.

**U-Vint/U-Ferment:** a privately operated service outlet that provides customers with ingredients, equipment and expertise to make their own wine at the shop. These outlets do not require or receive the LCBO's authorization to operate.

**Varietals:** wines made from particular grape varieties, as opposed to blends. Well-known red varietals include Cabernet Sauvignon and Merlot; popular white varietals include Chardonnay, Sauvignon Blanc and Riesling.

**Value-adds:** bonus items attached by LCBO suppliers to a host product.

**Vintages:** the fine wine, spirits and specialty beer division of the LCBO. It offers an ever-changing assortment of premium products of unusual nature, limited production and/or niche market interest.

**VQA:** Vintners Quality Alliance (VQA) designation awarded to Ontario and B.C. wines of superior quality that meet strict wine-making and taste standards, modeled on “Appellation of Origin” systems used in other wine producing countries. New VQA legislation, passed by the Ontario legislature in the spring of 1999, will replace the voluntary system in place since 1988 and create a “wine authority” to control the use in Ontario of specified terms, descriptions and designations of wine, and to set quality standards for wines to which these terms, descriptions and designations are applied.

**Winery retail store:** a retail store operated by an Ontario winery under an authorization from the LCBO. Due to international trade agreements, there are two types of winery retail stores: “on-site” stores at the winery that may sell only wine made by the winery at that location, and “off-site” stores that may sell only wine made by the winery. There are 341 winery retail stores in Ontario.

**Wholesale channel:** anyone who buys beverage alcohol from the LCBO for legal resale to the public; includes licensees, BRI, agency stores and duty-free stores.



# Glossary of financial terms

**Administrative expenses:** all costs not directly associated with warehousing, merchandising and retail sales. They include finance and administration, human resources, information technology, and corporate offices.

**Balance sheet:** a financial statement showing a company's assets, liabilities, and shareholders' equity on a particular date. In a government enterprise like the LCBO, there is no shareholders' equity. The owners are the taxpayers of Ontario, and their stake in the company is represented by the significant annual contributions the LCBO makes to the government's Consolidated Revenue Fund.

**Controllable costs:** all costs within direct control of management, such as salaries, stationery and staff training.

**Current assets:** assets that will be used or converted to cash within one year; for example, cash, accounts receivable and inventory.

**Current liabilities:** debts that will come due within one year.

**Current ratio:** current assets divided by current liabilities. This ratio shows the company's ability to pay its current debts from current assets.

**Financial Information System:** computer software used to help manage the company's financial systems (for example: the general ledger, accounts payable, accounts receivable, fixed assets, etc.).

**Gross margin rate:** margin is the difference between revenues and the cost of sales. Gross margin includes profit and other expenses. The gross margin rate is expressed as a percentage of total revenues and indicates the rate of profit on net sales. The formula is:

$$\frac{\text{Net sales} - \text{cost of goods sold}}{\text{Net sales}} \times 100$$

**Gross sales:** includes all relevant sales taxes and discounts.

**Inbound freight ratio:** measures inbound freight as a percentage of net sales.

**Income statement:** a financial statement showing a company's revenues, expenses and net income or profit over a given period.

**Income-to-net-sales ratio:** shows the percentage of net sales represented by net income; an ongoing measure of profitability.

**Inventory turnover ratio:** indicates how many times inventory is sold and replaced during a year. A rising ratio indicates goods are being sold more quickly to customers.

**Net income:** sales minus cost of goods and expenses.

**Net sales:** gross sales less federal and provincial sales taxes and any discounts (such as licensee and diplomatic discounts).

**Net sales and other income:** total product sales, less provincial and federal sales taxes and any discounts, plus any other income generated during the fiscal year (e.g., interest income, license payments, etc.).

**Non-controllable costs:** all non-controllable costs (e.g., rent, property taxes, utility charges, etc.).

**Non-salary controllable costs:** All controllable costs except salary and benefits.

**Operating expenses:** all expenses directly related to the operations of the company. In other words, all expenses except capital spending.

**Outbound freight ratio:** measures outbound freight as a percentage of net sales.

**Product accounts payable:** the amount of money owing on products the LCBO has already received or that are in transshipment to us.

**Statement of changes in financial position:** a financial statement showing sources and uses of cash during a given period.

**Store salary-to-net-sales ratio:** shows the percentage of total store net sales represented by total store salaries; an indicator of productivity in the retail system.

**Store expenses-to-net-sales ratio:** shows the percentage of total store net sales represented by total store expenses (all controllable and non-controllable costs).

**Total expense ratio:** The ratio of total expenses to net sales; helps indicate how a company's expenses are trending over time.

**Total revenues:** gross sales and other income less discounts.

**Unit sales per full-time equivalent (FTE) hour:** the number of units sold divided by the total number of hours worked in the retail system; also an indication of productivity.

**Working capital:** funds invested in current assets, e.g., cash, accounts receivable, inventory. More working capital means there is more cash available to fund business activities.

# Corporate Governance

SERVING OUR CUSTOMERS AND STAKEHOLDERS

**The mission of the Liquor Control Board of Ontario (LCBO) is to be a customer-focused and profitable retailer of beverage alcohol, a leader in promoting social responsibility in the use of alcohol, and an impartial and objective regulator of the beverage alcohol industry.**

Our customers are the people who buy our products and services. Our stakeholders include the people of Ontario, their elected officials, our trade partners and groups that share our concern for public safety. To serve their interests, we:

- deliver quality products and services at competitive prices
- distribute our products and services through a variety of retail formats and other sales channels, such as catalogues
- promote the responsible use of alcohol
- control the importation, transportation, warehousing and sale of liquor outside of licensed premises, together with quality assurance and pricing, in a fair and impartial manner. The authorization presently given by the LCBO for Ontario winery retail stores, Beer Stores and liquor delivery is expected to be transferred to the Alcohol and Gaming Commission of Ontario.

To fulfill our responsibilities to the government and people of Ontario, we:

- maximize dividends to the Government of Ontario
- enhance the LCBO's value to the Government of Ontario
- manage the LCBO's business risks.

## What is corporate governance?

Corporate governance means the processes and procedures a corporation uses to manage its business and affairs to enhance shareholder value. It includes ensuring the financial viability of the business, and the corporation's positive relationship and dealings with stakeholders.

Since 1995, the Toronto and Montreal Stock Exchanges have required listed companies to disclose their corporate governance practices. As a government enterprise, we're not subject to these policies. However, we believe that effective corporate governance and accountability are essential to fulfilling our mandate, and we've included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

# The LCBO strives to meet the highest standards of both corporate governance and disclosure.

## The Board

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Consumer and Commercial Relations
- ensuring that the LCBO provides high-quality service to the public
- ensuring the organization has communications programs to inform stakeholders of significant business developments
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

## Appointment of Members to the Board

Members of the Board are appointed by the Lieutenant Governor, through Order-in-Council, on the recommendation of the Premier and Minister of Consumer and Commercial Relations. Members are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes information about its business, operations and current strategies and issues, and visits to LCBO facilities. New Members also receive written materials and meet with senior management.

## Responsibilities of Board Members

Each Board Member has individual responsibilities for corporate governance, including:

- overseeing the management of the business and affairs of the LCBO
- acting honestly and in good faith in making decisions with a view to the best interests of the LCBO
- having adequate knowledge of the LCBO's business, how it is organized, and how it functions
- attending Board meetings and seeking professional advice where necessary
- exercising judgement independent of management
- avoiding conflicts of interest. Board Members may not enter into arrangements with the LCBO for personal gain
- providing guidance on policy development.

## The Strategic Planning Process

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with an annual strategic planning conference whose purpose is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board approves the corporate strategies and reviews the objectives developed by each division to achieve them. Performance appraisals are tied to corporate and departmental business plans: every employee is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see *The five-year plan in Beyond the Numbers 1998-99: Management's discussion and analysis of operations.*



### **Audit Committee**

The Audit Committee is composed of three Board Members elected annually by the Board. The Committee ensures the reliability and accuracy of the LCBO's financial statements and helps coordinate and improve its internal control functions. The Committee:

- monitors the Board's activities and operations
- advises and counsels the LCBO General Audit Department
- in conjunction with the LCBO General Audit Department, reviews the LCBO's internal control system, internal compliance audits, and the annual budget and makes recommendations as required
- identifies the principal risks facing the business and reviews systems to manage these risks
- acts as a liaison among the Board, the LCBO's General Audit Department and the Provincial Auditor
- oversees the production of the Annual Report.

The Committee meets at least twice a year.

### **Ethics and Business Conduct**

The Board is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices, in March, 1998, the Board approved a new policy for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April, 1998, the Board approved a new Code of Business Conduct, with policies for conflict of interest; confidentiality; the outside activities of employees, officers and Members of the Board; gifts and entertainment; and human rights.

### **Health and Safety**

The Board approves an annual Health and Safety policy, and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues. Reports are provided to the Board monthly.

### **Store Planning and Development Committee**

This is a staff committee which reports to the Board. It reviews all real estate and leasing decisions and makes recommendations to the Board. The Committee meets monthly.

### **Listings Committee**

This is a staff committee which reports to the Board. It reviews all applications to list beverage alcohol in LCBO stores, and makes recommendations to the Board about these applications and about the de-listing of certain products from LCBO stores. The Committee normally meets quarterly.

### **Listings Appeals Committee**

This is a staff committee which reports to the Board. It reviews all appeals of decisions denying listing applications and de-listing beverage alcohol products from LCBO stores and makes recommendations to the Board. The Committee meets quarterly.

### **Governance of the LCBO Differs from Private-Sector Corporations**

In public companies, boards of directors usually have a number of key responsibilities which they perform on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, a Crown agency accountable to the Ontario Government, several of these functions are performed directly by government. This includes appointment of the Chair and CEO. In making major policy decisions, the Board takes into account the policy objectives of the provincial government.

### **Year 2000 Compliance**

The LCBO has undertaken a comprehensive Year 2000 program to ensure that the transition into the millennium proceeds smoothly and that our services remain uninterrupted. For further information, please see *Year 2000* in *Beyond the Numbers 1998-99: Management's discussion and analysis of operations*.



*The LCBO is working diligently to anticipate Y2K-related computer problems and create contingency plans to deal with them. Left to right Brian Holloway, Director of Y2K Compliance, and Team Leads Jennifer Fawcett and Joseph Yao.*

# Chair's Message

**BY ALMOST ANY MEASURE, FISCAL 1998-99  
WAS THE LCBO'S BEST YEAR EVER.**



*Much of the LCBO's success can be attributed to the strategic direction we embarked upon in 1997, and to the employees who have turned our strategic vision into reality, writes Chair and CEO Andrew S. Brandt.*

**Our year-over-year net sales increased by \$199 million, or 9.4 per cent – the largest increase in our 72-year history.**

Sales increased in both wholesale and retail channels across the province, against plan and over last year. And volume sales increased at nearly the same rate as dollar sales, so we didn't increase revenues by raising prices. We did it by growing the business, while controlling expenses throughout the organization. Expenses were 16.1 per cent of net sales, down from 17.5 per cent in 1994-95. That decrease has meant productivity gains of up to \$70 million over those five years.

By increasing sales while controlling expenses, we were able to deliver another record dividend to the province of Ontario: \$780 million, \$35 million more than the year before and nearly \$200 million more than just five years ago.

If you combine our 1998-99 dividend and the \$220.6 million in Provincial Sales Tax (PST) that we transferred, they totaled a shade over one billion dollars – \$1,000,644,970 to be exact. This marks the first time we have broken the billion-dollar mark in annual payments to the province.

Just as important as this financial performance are the results of a customer survey we conducted in February, 1999. Our largest-ever such survey showed that the vast majority of our regular customers are satisfied with the service and selection they get in LCBO stores. In fact, only two per cent were dissatisfied. Staff rated highly on core service attributes like availability, helpfulness, product knowledge and friendliness; the LCBO's commitment to social responsibility was also well regarded.

The results will help set benchmark levels against which we can measure future progress. We'll set measurable goals and look at specific initiatives to help us reach them. Then we'll do the survey again in February, 2000, and compare the results.



## What's behind our success?

To be sure, the provincial economy has improved significantly in recent years, which has led to lower rates of unemployment and more disposable income for Ontarians. But that alone doesn't explain our growth rate, which exceeds both the retail sector as a whole and comparable Canadian liquor jurisdictions.

I believe much of our success can be attributed to the strategic direction we embarked upon in 1997, and to the employees who have turned our strategic vision into reality. Our suppliers also deserve credit for bringing exciting new products to market and for partnering with us on staff training programs.

As our older customers know, the LCBO was for many years a bureaucratic, distribution-oriented entity. In the late 1980s, we began to transform ourselves into a customer-focused retailer.

We renovated stores, improved product selection and trained our employees to provide a higher level of customer service. We began accepting credit and debit cards; extended hours of service in many stores; opened on Sundays year-round; introduced cooking classes, limited time offers and in-store tastings; and began offering AIR MILES Rewards. We launched successful in-store thematic promotions like Wines of Ontario and Mediterranean Romance, each featuring products from a different region or country. In short, we made shopping at the LCBO more enjoyable and informative.

By 1997, we had improved to the point where the Retail Council of Canada would name us Innovative Retailer of the Year. We won that coveted award again in 1998 and were a finalist this year.

Does that mean we are where we want or need to be?

Not for a minute.

We may have evolved into a good retailer, but our strategic plan demands more. It calls for us to become Ontario's *Source for Entertaining Ideas*. This means the LCBO would be the place customers turn to whenever they are planning a dinner, a party or another event that brings people together to enjoy food, beverages, music and other elements of good living.

Every employee would be a customer service specialist; stores would be informative, entertaining environments where shoppers could not only find products to suit their taste and budget, but would be inspired by the knowledge and passion of our staff.

Let me review the steps we have taken in the past fiscal year to move this plan forward.



*LCBO employees – like Ajax Customer Service Representative Bob Hodgson – are intent on achieving the highest possible levels of customer service and satisfaction.*



**THE PLAN IS BROKEN DOWN INTO SEVEN STRATEGIES, WHICH ARE FURTHER DIVIDED INTO TWO FAMILIES – CORE AND ENABLING.**

# The Core Strategies are:

**To provide products and services that best suit customers' tastes and interests.**

In recent years, the LCBO has used market research to learn more about its customers. One innovative 1997 study segmented our customers into discrete elements, like *Enthusiasts* – affluent, educated, passionate about wine and other beverage alcohol products – and *Outgoing & Actives*, young, athletic, likely to entertain after a game of softball or hoops.

Our research is helping us anticipate and cater to the tastes of all our customers, develop specific services for those who favour higher-margin premium products, and cultivate long-term relationships with those we hope to serve for many years to come. Research is also helping us ensure specialty and niche markets are well served.

**To define, develop and implement compelling customer service.**

There's competent customer service, good customer service – and then there's *compelling* customer service, the kind that not only meets but exceeds expectations.

While research helps us define compelling customer service – showing where we are succeeding and telling us where we fall short – we are working diligently on ways of achieving the highest possible levels of customer service and satisfaction. Our efforts begin with training. All three levels of the LCBO

Product Knowledge Correspondence Course are now mandatory for all Retail employees, as are courses developed in partnership with the Distillers Council of Ontario to help make employees more confident in discussing the versatility of spirits. Product Consultants – whose expert knowledge of wines, spirits and beers helps them inform customers and colleagues about every aspect of beverage alcohol – are expected to pursue even higher levels of education through community colleges, wine guilds or on their own. We expanded our number of Product Consultants by more than 30 per cent this year, and our plan calls for continued expansion of their ranks over the next three fiscal years.

We also sent dozens of employees to Ontario wineries and distilleries, where they could take part in or observe every aspect of wine and spirit production.

We purchased televisions and video playback units for every store in fiscal 1998-99, to give employees easier access to award-winning LCBO training videos like *Hard Target* – a robbery prevention video – and *Working SMAART*, which reinforces the importance of socially responsible service.

Training our employees benefits the employees themselves; the customers they serve; and the organization, whose financial goals are best served by a motivated, knowledgeable and confident workforce.



*At a recent all-day training session called "Uncork the Knowledge", frontline LCBO employees learned more about the wines of Ontario, and how to share their knowledge and enthusiasm for these products with customers.*

**To implement a whole branding strategy that positions us as The Source for Entertaining Ideas.**

As I mentioned earlier, the LCBO is determined to continue its evolution as an innovative, award-winning retailer... to become Ontario's *Source for Entertaining Ideas*. Working with our suppliers, we'll keep developing marketing and merchandising plans that inform and entertain customers, while showcasing the fine products of our trade partners.

We'll feature more in-store promotions that highlight our selection of gifts to suit any occasion. We'll also bring a desired consistency to our store network by erecting new outdoor signage at all locations, featuring up-to-date logos and corporate colours. (As recently as 1998, a photo audit showed dozens of different signs in our 600 stores, some of them dating back to the 1950s and 60s.)

And we will continue to modernize and upgrade our stores, relocating and renovating where necessary, to provide a consistently appealing and convenient shopping experience network-wide. Expect to see more displays and services that bring *FOOD & DRINK* magazine to life in our stores and establish a more consistent corporate brand personality.

**To secure key stakeholder support, particularly among those who look to the LCBO for leadership in promoting social responsibility.**

Beverage alcohol can be an enjoyable part of a healthy, balanced lifestyle – if used responsibly. The LCBO has a vital leadership role to play in ensuring responsible use. This goes beyond challenging and refusing to serve people who cannot prove they are of legal drinking age, or who appear to be intoxicated. We also partner with many other organizations to promote responsible drinking, including Mothers Against Drunk Driving (MADD) Canada, Ontario Community Council on Impaired Driving (OCCID) and numerous police forces.

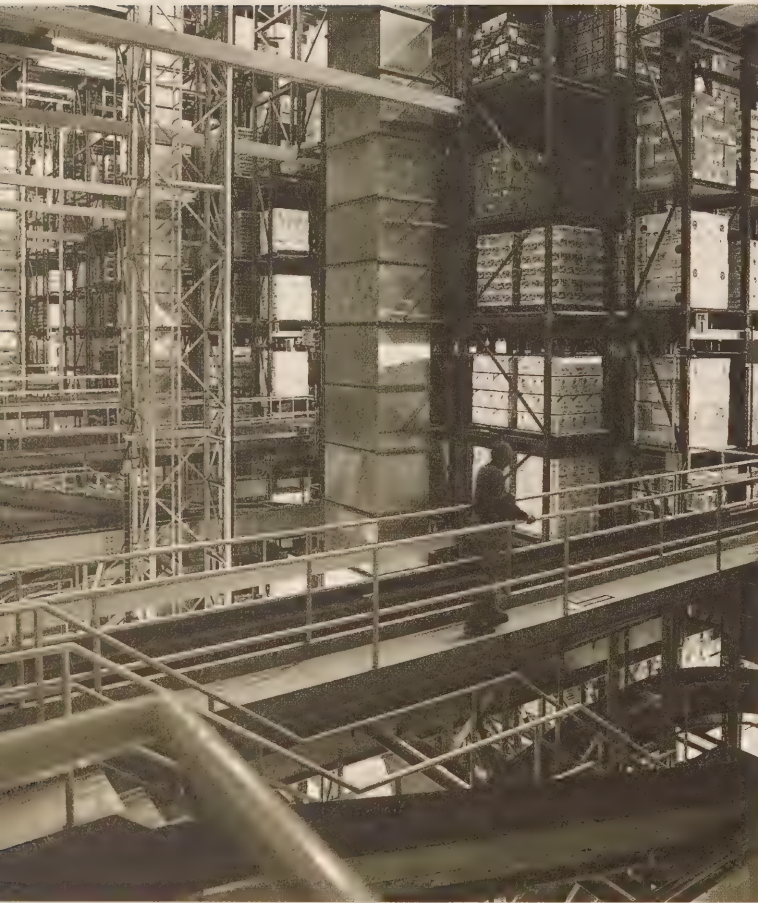
These promotions can range from in-store posters that remind people of their responsibility to drive sober – whether they are driving a car, boat or snowmobile – to an award-winning cinema commercial or the head-turning billboard campaign developed in 1999 in partnership with MADD Canada (see page 36 for more details on all our social responsibility activities).

We also raise funds for organizations that share our concern for social responsibility through our donation box program. In 1998, we raised more than \$260,000 for good causes in our donation boxes, and hundreds of thousands more through our United Way campaign and other community-centred activities.

The LCBO has a vital leadership role to play in ensuring responsible use.



# The Enabling Strategies are:



*This fiscal year, the LCBO undertook a Supply Chain Management Review designed to improve the way product moves from suppliers to our store shelves. Above is the LCBO's automated Durham Warehouse, a key link in the supply chain, handling some 30 million cases a year.*

## **To have the right people in the right place – with the right attitudes and skills.**

The training efforts I described earlier help provide LCBO employees with the attitudes and skills they need to thrive in today's fast-paced business environment.

We're also working to recruit new people with these skills and attitudes, including more Product Consultants. This year, we pilot-tested a new, more rigorous process for screening new retail applicants, to ensure we find the best candidates in the most efficient way.

We launched a new District Managers Assessment Centre (DMAC) to facilitate succession planning in the Retail division.

We also developed an Employee Attitude Survey – our first in more than 10 years – to find out how employees feel about working at the LCBO and to better understand what they need to succeed in their jobs. Once the results are tabulated, we'll report them back to employees and begin developing action plans to address key issues they raise.

## **To invest in technology as an enabler.**

Like many major companies, we have had to devote staff time and resources to deal with the Year 2000 computer problem, which is discussed in greater detail on page 20. Nonetheless we have moved forward on several important initiatives to make our operations more efficient. These include a new IBM point-of-sale system, which will speed up every transaction in our stores – an important consideration for an organization that conducts some 83 million transactions a year. Our new registers also come with flat-screen monitors that can display every detail of each purchase, along with social responsibility messages.



We also introduced a new Financial Information System to handle our Accounts Payable and other General Ledger functions, and launched a "data warehouse" known as the Information Library, which enables employees to access sales data and other information they need to make informed business decisions.

**To optimize our supply chain to deliver maximum customer satisfaction at competitive costs.**

This fiscal year, the LCBO undertook a Supply Chain Management Review to improve the way product moves through our system. By eliminating procedural bottlenecks and barriers, and using technology to help us work smarter, we can further improve customer satisfaction, enhance relations with the trade and other stakeholders, and lower our cost of doing business.

The project team's comprehensive proposals are now being studied by the government. Some proposals will likely be approved for pilot testing before measurement and implementation on a broader scale; other suggestions may be revised or rejected if they don't achieve the desired results in terms of improving the supply chain.

Whatever approach is eventually approved will be an integrated one that encompasses Head Office, warehouses, product buying and store operations.

This important undertaking will likely span several years. But we now have a clearer understanding of what we need to do to bring our supply chain system up to a level that supports superior customer service.

**Looking ahead**

As good as this year was, we expect to do even better in fiscal 1999-2000.

Our financial goals are bold, even aggressive, and nothing less than our best effort will get us there.

I believe strongly that we are up to the challenge.

We have a visionary and workable strategic plan, one that has served us well so far. In fact, in the first two years of our five-year plan, we'll have exceeded our dividend targets by some \$40 million. We have the research tools to tell us how we are matching up against our goals and where we need to improve. We have a workforce that has shown it is committed to the pursuit of excellence and to its own continued evolution. We have the support and wise counsel of a strong, experienced Board, and of the Ministry of Consumer and Commercial Relations, to whom we report.

I look forward to the coming year – my tenth as Chair and CEO – knowing we are moving forward with a clear vision and a motivated team of professional employees who are ready, willing and able to provide the highest level of service to the community.

As great as fiscal 1998-99 was, the new millennium will be an even more exciting and rewarding period for the LCBO, the Government of Ontario and our customers.



Andrew S. Brandt  
Chair and CEO  
Toronto, Ontario, July, 1999

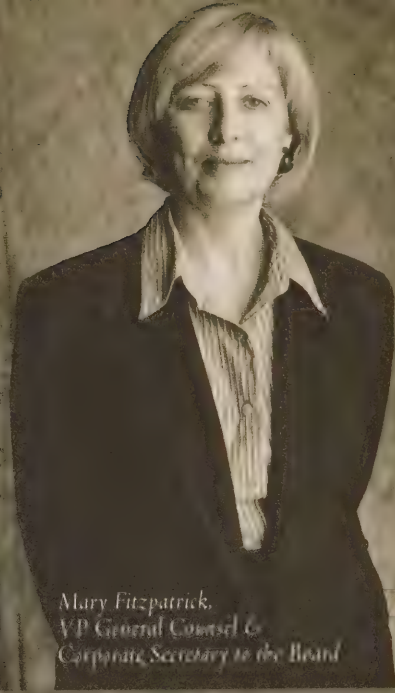
Our financial goals are bold,  
even aggressive, and nothing less than  
our best effort will get us there.



Tom Martin  
VP Logistics



Dave Wilcox  
VP Merchandising



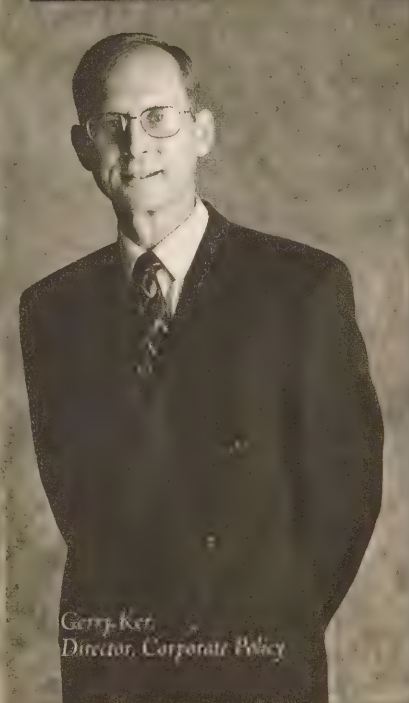
Mary Fitzpatrick  
VP General Counsel &  
Corporate Secretary to the Board



Larry Gee  
Executive Vice President



Shelley Nunn  
Director Strategic Planning



Gerry Ker  
Director Corporate Policy



Gar Sherwood  
VP Retail



Hugh Kelly  
VP Information Technology



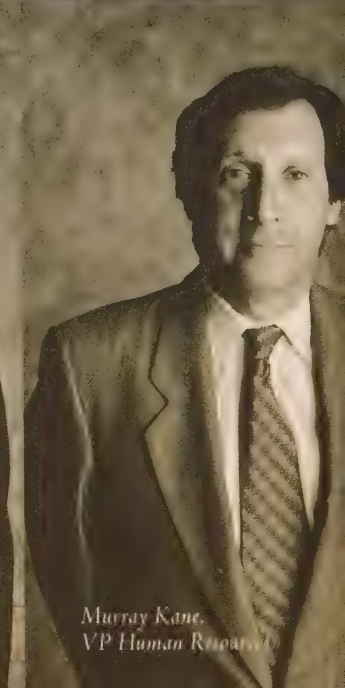
Barry O'Brien  
Director Corporate Affairs



Bill Kennedy  
Director Corporate Communications



Alex Browning  
VP Finance & Administration



Murray Kane  
VP Human Resources



# Beyond the Numbers 1998-99

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

**This section of the report explains the financial results of the LCBO for the past year and provides background for evaluating its performance. Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements.**

As a government enterprise, the LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure full disclosure of our results to the widest possible audience.

<b>HIGHLIGHTS</b> (value in \$000s)	<b>1997-98</b>	<b>1998-99</b>
Dividend to government	\$745,000	\$780,000
Net sales and other income	2,160,843	2,349,832
Per cent increase	7.3	8.8
Operating expenses	351,653	374,558*
Net income	744,904	809,426
Per cent increase	6.3	8.7

\*Operating expenses rose during fiscal 1998-99 due to a number of factors, including: an increase in the number of store employees; increased casual staff during Christmas; a salary increase and bonus payment for bargaining unit staff as per the union contract; management salary increases; other divisional expenses; and items such as increased depreciation tied to greater capital spending and costs associated with accepting credit cards.

### **Higher dividend to government for fifth straight year**

We transferred a record \$780 million dividend to government on behalf of Ontario taxpayers in 1998-99, surpassing our target of \$761 million by 2.5 per cent. This is the fifth straight year we've increased our dividend.

The following table gives a ten-year history of the dividend paid to the province of Ontario.

The dividend hit a low of \$585 million in 1993-94 but has been increasing ever since. This can be attributed to overall improved economic conditions, LCBO retailing and merchandising initiatives, new store formats and store improvements, staff training, application of technology, and more recently, to the introduction of debit/credit cards, AIR MILES Rewards and permanent Sunday openings.

Dividend	89-90	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99
(\$000,000s)	\$640	\$650	\$675	\$615	\$585	\$630	\$680	\$730	\$745	\$780



### Billion dollar payout

The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to \$220.6 million in fiscal 1998-99.

If you combine our dividend and the PST, then this year, for the first time ever, the LCBO broke the billion-dollar barrier, by giving our owners – the people of Ontario – a total of \$1,000,644,970.

### Sales set new record

Against a background of rising consumer confidence and a buoyant Ontario economy, LCBO net sales rose \$198.9 million last year, or 9.4 per cent, to \$2.326 billion.

This was the largest year-over-year increase in net sales in our 72-year history.

LCBO's performance compared very well with other liquor jurisdictions in Canada. Growth in sales by volume surpassed all other provinces by a wide margin in 1998-99: LCBO volumes were up 9.9 per cent, compared to 6.5 per cent for the next closest province, Quebec. Since 1995, LCBO sales volume have risen 34.5 per cent.

Revenue growth at LCBO outpaced the comparable jurisdictions of B.C. and Quebec (9.4 per cent vs. 2.7 per cent and 9.0 per cent). The reason the LCBO lags slightly in revenue growth compared to its volume growth is that the government has not increased its tax structure.

Our revenue growth of 9.4 per cent outpaced that of the retail trade sector by a huge margin. According to Statistics Canada and the Economic Observer, the provincial sector grew by 1.9 per cent between 1997-98 and 1998-99; across Canada, it grew by 1.7 per cent over that same time frame.

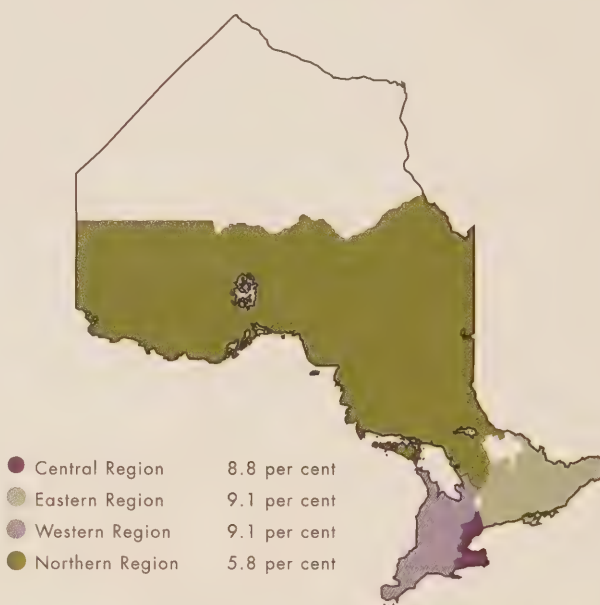
### Sales strongest in Eastern, Western Regions

All four retail regions of the LCBO experienced strong growth in fiscal 1998-99; as the map below shows, it was strongest in the east and west.

### Retail and wholesale sales both strong

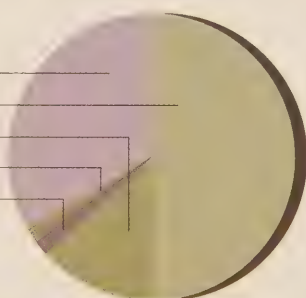
Retail sales, which we define as sales through LCBO retail stores, accounted for 81.0 per cent of total sales, a growth of 9.2 per cent over the previous year, reaching \$2.21 billion.

Wholesale channels also grew strongly last year. More Ontario consumers are dining out, evidenced by the fact that licensee sales now account for 13.6 per cent of our total sales. Sales to Brewers Retail Inc. have also increased significantly as imported beer becomes more popular and accessible through this store system. BRI accounted for about three per cent of our sales. Sales to agency stores, the duty-free warehouse and duty-free LCBO stores accounted for one per cent of total sales each in fiscal 1998-99; non-store retailing (i.e., catalogue sales) accounted for 0.1 per cent.



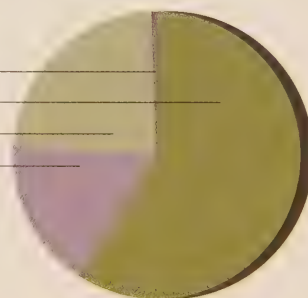
### Breakout of Net Sales Dollar 1998-99

Dividend	33.5%
Product Cost	50.1%
Retail	13.2%
Admin. and Other	1.4%
Capital	1.8%



### LCBO Payments to Government

Local	0.6%
Dividend	58.9%
Federal	23.8%
PST	16.7%



In all, wholesale sales now account for 19.0 per cent of total LCBO sales, down slightly from last year but up from 17.2 per cent in 1994-95.

### The LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including Brewers Retail Inc., Ontario winery retail stores, and duty-free stores. There are currently 1,525 outlets selling alcohol in Ontario.

Here's what the market looked like at March 31, 1999 (percentages have been rounded):

- 600 LCBO stores (39 per cent of all outlets)
- 428 Brewers Retail stores (28 per cent of all outlets)
- 341 Ontario winery stores (22 per cent of all outlets)
- 102 agency stores (7 per cent of all outlets)\*
- 39 on-site brewery stores (3 per cent of all outlets)
- 11 land border-point duty-free stores (0.7 per cent of all outlets)
- 2 on-site distillery stores (0.15 per cent of all outlets)
- 2 privately-owned airport duty-free stores (0.15 per cent of all outlets)

\*If you combine the LCBO's 600 stores and Ontario's 102 agency stores, their market share is approximately 46 per cent.

### Changes in market share

Ontario's beverage alcohol marketplace amounted to approximately \$6.6 billion in gross sales in fiscal 1998-99. LCBO's market share by value has risen from 38.5 per cent in 1994-95 to 41.4 per cent in 1998-99 (39.8 per cent in 1997-98).

Winery retail store sales have grown from 1.8 per cent in 1994-95 to 2.0 per cent in 1998-99, down slightly from 2.2 per cent in 1997-98. Brewers Retail Inc. has lost almost 2.2 percentage points of market share since 1994-95, falling to 33.6 per cent in 1998-99 (down marginally over the 1997-98 share of 33.7 per cent).

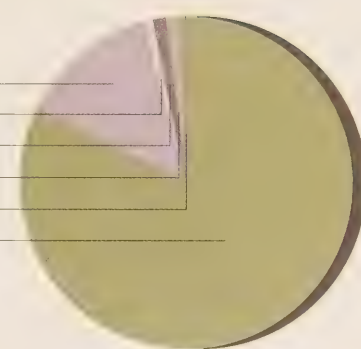
By volume, LCBO's market share rose 4.7 percentage points between 1994-95 and 1998-99, from 19.5 per cent to 24.2 per cent. Winery retail stores increased their market share from 1.2 per cent to 1.4 per cent over the same time period, while Brewers Retail Inc. fell from 71.0 per cent to 65.8 per cent.

### Hobby beer- and wine-making popular

In 1998-99, the size of the U-Brew and U-Vint market is estimated to have grown to 11.3 per cent of the total provincial beverage alcohol market as measured in gross sales, up from an estimated 11.2 per cent in 1997-98. Continued growth of the number of establishments offering beer- and wine-making (454 in 1997-98; 470 in 1998-99) has helped fuel growth in this service sector.

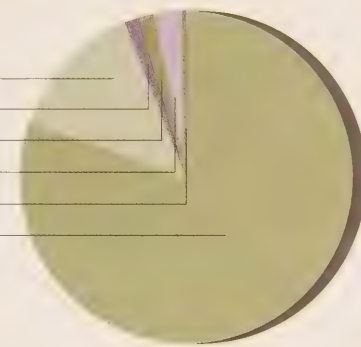
### Breakdown of LCBO Sales 1994-95

Licensee Sales	13.7%
Agency Sales	0.8%
Duty Free	1.1%
Brewers Retail Inc.	1.4%
Other Sales	0.2%
Retail Sales	82.8%



### Breakdown of LCBO Sales 1998-99

Licensee Sales	13.6%
Agency Sales	1.1%
Duty Free	1.2%
Brewers Retail Inc.	3.0%
Other Sales	0.1%
Retail Sales	81.0%



### Illegal competition

Since 1993-94, the estimated size of the illegal market in Ontario has been falling steadily. In 1998-99, illegal alcohol accounted for an estimated \$543 million in sales, or approximately 8.2 per cent of the total Ontario beverage alcohol market. This is down from the estimated \$584 million or 9.3 per cent market share in 1997-98, and the estimated \$788 million or 14.4 per cent market share in 1994-95. This decline is due largely to the efforts of LCBO investigators and law enforcement agencies to curb this problem; continuing public education about the health risks of consuming illegal alcohol; and new customer-service initiatives – such as Sunday openings and credit/debit card payment options – that have helped draw customers back to legal channels.

# Year 2000

## Background

The Year 2000 problem – also known as Y2K – arises from the inability of many computer programs to correctly identify data referring to dates beyond the year 1999. That's because early programmers – in a bid to save expensive memory space – designed codes to represent years in two digits only. For example: January 1, 1965 was written as 01/01/65. Unless corrected, this shortcut could create widespread problems that could be experienced before, on or after January 1, 2000. Uncorrected codes would read "00" for the year and some computers might interpret this as 1900. If not addressed the effects could range from minor errors to significant systems failures.

Any computerized systems that perform date-related operations – such as payroll, accounting or inventory control – could be affected, as could equipment with computerized components, such as telephones, elevators and security systems.

## Addressing the problem

The LCBO has established a Year 2000 Corporate Compliance Office to oversee activities to manage Y2K issues and has appointed a Director of Year 2000 Compliance. Internal project teams have taken on the task of anticipating possible problems and creating detailed contingency plans to deal with them. An external company, Logitek Data Sciences Ltd., has been hired to assist the LCBO in its Year 2000 project activities.

## These activities are addressing the following areas:

- mission-critical application systems used to run our business, whether developed by the LCBO (e.g., Retail Price Management) or by external vendors (e.g., Oracle Financials)
- desktop and laptop computers
- embedded-device technology (e.g., equipment that contains computer chips that may have date-time functionality, including telecommunications systems, HVAC and security systems, photocopiers, printers and fax machines)
- mission-critical IT infrastructure (e.g., mainframe computers, servers and network hardware and related operating software).

## Progress report

Hardware and software throughout the LCBO have been inventoried and assessed to determine what needs to be fixed, retired or replaced. Priority has been given to mission-critical systems. For most systems where programming code is rewritten, an independent firm inspects the rewritten code before final testing to ensure it performs date/time functions as expected.

An extensive testing phase – during which we run programs and systems to determine how they handle a simulated rollover from the year 1999 to 2000 – is now underway.

The implementation phase – during which remediated systems will go "live" – is scheduled to commence August 23, 1999 and continue through September, 1999.

A support/warranty phase – during which we will monitor all systems and fix any problems that arise – is scheduled to commence October 1, 1999.

Although it is not possible to be certain that all aspects of the Year 2000 issue affecting the LCBO, including those related to the efforts of its suppliers, customers or other third parties, will be fully resolved, the LCBO believes it is successfully mitigating the risk of the Year 2000 issue. However, due to the general uncertainty inherent in the Year 2000 issue, it is not possible to be absolutely certain that the issue will not have a material and adverse affect on the LCBO.

*continued page 21*

...the LCBO believes  
it is successfully  
mitigating the risk of  
the Year 2000 issue.



### Third-party suppliers

The LCBO does business with third-party suppliers in some 60 countries around the world. There can be no absolute assurance that another company's failure to ensure Year 2000 capability will not have an adverse effect on us. The LCBO has implemented a communications plan to inform its key business partners and suppliers about our Year 2000 project, to discuss and document their Year 2000 readiness, and to assess the potential effects on LCBO operations if these organizations do not make timely and appropriate modifications to their systems.

### A business opportunity

While the Y2K project presents a considerable cost to the LCBO – nearly \$10 million will have been spent by the time the new millennium arrives – it is an investment that has to be made. Moreover, many managers in the organization view the undertaking as a positive business opportunity.

Much of our hardware and software will have been inventoried and better documented, which should help us fix problems more quickly in the future. We are accelerating the replacement of some outdated programs and equipment.

These measures should improve the efficiency of LCBO operations as we enter the new millennium.

# Income Statement

### Net income up \$64.5 million

Net income for fiscal 1998-99 was \$809 million. This was \$48.4 million over target and almost \$65 million higher than the previous year.

The income-to-net sales ratio was 34.8 per cent, exceeding our 1998-99 target of 34.1 per cent.

Stronger net sales in general – a 9.4 per cent increase over last – were boosted by 29 extra shopping days in 1998-99, LCBO promotional activities and the long summer season's impact on our sales of beer, coolers and other summer refreshment beverages. Other contributing factors were: overall improved economic conditions; LCBO retailing and merchandising initiatives; new store formats and store improvements; staff training; application of technology; and customer service initiatives such as debit/credit cards, AIR MILES Rewards and permanent Sunday openings.

### Gross margins down slightly

Gross margin as a percentage of net sales for 1998-99 was 49.9 per cent, just slightly below last year's 50.0 per cent. This decline reflects the continuing shift in the product mix away from spirits and towards beer and wine. For every dollar of net sales, our gross margin return on spirits is 58 cents. On wine, however, it is 50 cents; on beer 31 cents; and on spirit coolers, 43 cents. Beer and wine now represent 48.7 per cent of total net sales up from 43.5 per cent five years ago. The increasing strength of beer and wine in the product mix means an ever greater proportion of our incremental sales dollars come from

the sale of lower-margin product lines. The growth in the wholesale market also contributed to the lower gross margin ratio, due to the discounts provided on these sales.

### Productivity ratios are improving

To track expenses and see where improvements are needed, the LCBO sets targets for many productivity ratios each year. For example, the store expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, rent and overhead. A declining store expenses-to-sales ratio means that staff are becoming more productive.

In fiscal 1998-99, six of seven retail productivity ratios matched or improved over the year before.

*Store Salaries to Sales:* We matched last year's ratio of 7.8 per cent. We likely would have bettered the target, but we decided to extend our hours in many stores to enhance customer service.

*Store Expenses as Percentage of Sales:* We bettered last year's mark of 10.8 per cent, coming in at 10.6 per cent, by controlling non-salary controllable costs (such as stationery and consulting fees) and reducing non-controllable costs (which include rent, taxes and utilities).

*Salary per Unit Sold:* This ratio did not improve over the year before, coming in one cent higher at \$0.85, mainly due to extended hours of sale in higher volume stores.

Of seven logistics productivity ratios, all seven matched or improved over the year before, as sales by volume rose and costs fell.

*Store Expenses per Unit Sold:* We came in at \$1.16, just as we did in 1997-98.

*Unit Sales per Full-Time Equivalent (FTE) Hour:* We bettered this ratio over the past year, rising from 28.4 to 28.7. An increase in this ratio shows the decision to implement Sunday openings and extend hours is paying off.

*Sales per Customer:* At \$26.19, we did better than last year (\$25.75), likely due to the fact that many LCBO customers are trading up to premium products.

*Sales per Square Foot:* This ratio rose considerably, from \$1,452 to \$1,546. Square footage itself rose by two per cent.

### Logistics productivity also improves

Of seven logistics productivity ratios, all seven matched or improved over the year before, as sales by volume rose and costs fell. Better labour scheduling led to significant salary savings, while improved work procedures sped up handling time.

*Salary Cost per Case:* This ratio remained steady at 74 cents per case.

*Warehouse Cost per Case:* This figure declined from 98 cents to 91. Contributing to this was a greater-than-expected decrease in property taxes for our warehouse facilities.

*Cases Handled per Hour:* This figure rose from 61 to 65, a 6.5 per cent increase.

*Logistics Expense per Case:* Total Logistics expenses per case fell by 6.4 per cent, from 63 cents to 58.

*Freight Expense per Case:* This figure came in at \$1.07, a significant decrease over the year before, and might have been even lower but more frequent deliveries to stores drove cartage costs higher than we had expected.

*Inbound Freight Ratio:* This came in at 1.9 per cent, slightly below the 2.0 per cent posted in 1997-98. The ratio might have been even better, were it not for lower than expected savings from inbound freight contracts; a slight increase in the number of imported wines in our product mix; and less than optimum ordering schedules.

*Outbound Freight Ratio:* We matched last year's outbound freight ratio of 0.5 per cent.

### RETAIL - FINANCIAL AND OPERATING HIGHLIGHTS

	1994-95	1995-96	1996-97	1997-98	1998-99
Store Salaries to Sales	8.7%	8.5%	8.0%	7.8%	7.8%
Store Expenses as Percentage of Sales	11.8%	11.6%	11.1%	10.8%	10.6%
Store Salary per Unit	\$0.95	\$0.91	\$0.86	\$0.84	\$0.85
Store Expenses per Unit Sold	\$1.29	\$1.25	\$1.19	\$1.16	\$1.16
Unit Sales per FTE Hours	25.2	25.8	27.6	28.4	28.7
Sales per Customer	\$24.00	\$24.75	\$25.28	\$25.75	\$26.19
Sales per Square Foot	\$1,286	\$1,349	\$1,365	\$1,452	\$1,546

## LOGISTICS - FINANCIAL AND OPERATING HIGHLIGHTS

	1994-95	1995-96	1996-97	1997-98	1998-99
Salary Cost per Case	0.92	\$0.84	\$0.82	\$0.74	\$0.74
Warehouse Cost per Case	\$1.25	\$1.15	\$1.10	\$0.98	\$0.91
Logistics Cases per Hour	51	53	56	61	65
Logistics Cost/ Cases Handled	\$0.82	\$0.76	\$0.70	\$0.63	\$0.58
Freight Expense per Case	\$1.26	\$1.22	\$1.22	\$1.15	\$1.07
Inbound Freight as Percentage of Sales	2.0%	2.1%	2.1%	2.0%	1.9%
Outbound Freight as Percentage of Sales	0.5%	0.5%	0.5%	0.5%	0.5%

*Note: Private Stock moved from the Logistics Division to Retail in 1998-99, which has resulted in some ratios differing from those reported in earlier Annual Reports.*

## Expense targets met

The administrative expense ratio met the target of 1.4 per cent in 1998-99.

Operating expenses grew by 6.5 per cent, or \$22.9 million, in 1998-99, reflecting an increase in depreciation tied to increased capital spending, and the growing expense of accepting credit cards. (Approximately 18 per cent of LCBO sales are now paid by credit cards, and another 21 per cent by debit cards.)

Since 1994-95, operating expenses as a percentage of net sales have fallen from 17.5 per cent to 16.1 per cent in 1998-99. The total expense ratio we achieved is of particular significance, given that we had budgeted for a ratio of up to 16.8 per cent to account for increased operational expenses associated with our five-year strategic plan.

## Other income

This category includes items such as parking revenues, special occasion permits, airline mark-ups and investment income. Other income in fiscal 1998-99 was \$23.5 million, down from last year's \$34 million. (Other income in 1997-98 was higher than usual due to a one-time payment from Canadian airline companies following a favourable court ruling on the LCBO's right to collect mark-ups on liquor imported by the airlines into Ontario.)

# Balance Sheet

## Liabilities up

Liabilities were up in 1998-99, largely due to an increase in product accounts payable, from \$118.4 million to \$133.4 million. This was due to an increase in purchases as inventory grew.

## Year-end inventories up

Year-end inventory was up over last year—\$236.3 million in 1998-99 versus \$193.4 million in 1997-98. This was due to a build-up in inventory in March of 1999 for Easter, our second biggest wine-buying holiday, which fell in April of 1999, as well as early build-up for the millennium celebration.

The inventory turnover ratio has declined from 5.5, to 5.4, down 1.8 per cent over last year.



# Changes

## IN OUR FINANCIAL POSITION

### More cash on hand

Our cash position increased from \$19.0 million in 1997-98 to \$24.6 million at the end of 1998-99. This was mainly due to a \$15.0 million increase in our product accounts payable, as sales in the final quarter of the year were better than expected.

### Capital Expenditures

(value in \$000s, numbers rounded)

	1994-95	1995-96	1996-97	1997-98	1998-99
Retail	13,223	14,463	8,110	13,008	17,730
Information Technology	9,826	8,639	8,720	8,472	17,834
Logistics	2,172	1,846	782	1,213	1,658
Marketing Programs	1,734	1,600	1,554	1,989	2,558
Other Administrative Divisions	681	670	248	917	1,179
Total Capital Expenditures	27,636	27,219	19,413	25,600	40,959

The increase in Retail capital expenditures reflects needed improvements to the store network; the Information Technology increase was related primarily to Year 2000 compliance, a new Financial Information System and a new point-of-sale system in stores; the increase by Logistics was to replace aging equipment at the Durham Warehouse and other facilities; Marketing Programs' increase reflected new store signage and promotions to position the LCBO as the *Source for Entertaining Ideas*. The increases for Other Administrative Divisions reflected improvements to the work environment and upgrading of technical equipment.

### Continuous innovation

Our success as a retailer is due to continuous innovation. In the past year, we've introduced new shopping hours, new retail formats, and new products and services to meet our customers' needs. Our number one goal is compelling customer service.

### The five-year plan

To meet our goal, we've developed a five-year capital strategy to allow us to:

- continue to succeed in the changing beverage alcohol market
- increase customer satisfaction and remain the beverage alcohol retailer of choice
- maximize returns to Ontario taxpayers by generating increased dividends to the Ontario Government over the next five years.

The plan calls for \$222.7 million in capital spending over five years, with over 80 per cent spent on operations – the elements that customers see and experience. We expect an average dividend of \$833 million each year under the plan, or transfers of \$4.2 billion over the five years.

Because fiscal 1998-99 was the first year of this five-year plan, it was important to meet, if not exceed, our goals, which we did by a considerable margin.



*Customer Service Representative Nicole Bird, right, shows a customer one of more than 100 VQA wines in stock at our Bayview Village store. The VQA designation is awarded only to Ontario and B.C. wines of superior quality that meet strict winemaking and taste standards.*

## Looking ahead

In 1999-2000, a growing economy and our continuing focus on improving the LCBO shopping experience should contribute to another strong year. We are forecasting growth of 5.7 per cent, or almost \$132 million, to a total of \$2.457 billion in net sales. This is ahead of the 2-4 per cent growth most retail analysts predict for the sector. But we believe the LCBO will lead the sector, as it did the past fiscal year, especially in the sales of our products during the celebrations leading up to the new millennium.

Volume sales are also expected to increase by 5.6 per cent. This should exert less downward pressure on our gross margin as a percentage of sales. Gross margin will continue to fall to 49.2 per cent, but this represents less erosion than in recent years, as a result of greater growth anticipated in the spirits and wine categories, compared to beer.

Divisional expenses are budgeted to rise by 5.4 per cent to account for the increasing expense of accepting credit cards; increased depreciation tied to greater capital spending; a two per cent salary increase called for in the last year of the Collective Agreement; salary increases and a pay-for-performance plan for excluded staff; increased marketing costs tied to new customer service initiatives designed to enhance the shopping experience in our stores; the expansion of our popular consumer magazine, *FOOD & DRINK*; and a \$1 million increase in social responsibility advertising. It is important to note, however, that the total expense ratio is projected to remain at 16.1 per cent.

The product cost as a percentage of net sales will increase slightly, from 50.1 per cent to 50.8 per cent.

Given the margins and expenses for which we are budgeting, we expect net income to fall slightly from 34.8 per cent of net sales to 33.9.

Our dividend to government should increase for the sixth consecutive year, to \$795 million. Coupled with the \$780 million we transferred in fiscal 1998-99, that would be a two-year total of \$1.575 billion, \$39 million more than the \$1.536 billion we had planned to transfer during the first two years of our five-year strategic plan.

Our expense line was originally forecast at 16.8 per cent of net sales in the first year of our strategic plan and 16.9 in the second. However, having come in at 16.1 this year, and being projected to come in at 16.1 in 1999-2000, we will have realized productivity savings of more than \$30 million in the first two fiscal years of our five-year plan.

We are well ahead of where we said we would be and will do everything we can to keep it that way.



*In fiscal 1998-99 we spent \$14 million to upgrade or relocate stores 16 per cent more than the year before. In each case, the improvements were designed to increase customer satisfaction and to generate sufficient additional revenue to pay for themselves.*



# Wine

**The LCBO's Wines Category\* enjoyed a year of solid growth in 1998-99, with total sales of \$635 million.**

That represents an increase over the previous year of 8.8 per cent in dollars and 4.6 per cent in litres – due in large part to the increasing sophistication of the Ontario consumer.

Several factors support this conclusion: sales of red wines are growing faster than those of white; customers are choosing more varietals than blends; and more customers are buying premium wines that sell for \$10 or more.

## Red wines post gains

It is often said that wine drinkers start off with white wines and migrate to reds as they learn more about the product. Red wines generally offer a little more complexity than most whites, so as people's tastes grow more sophisticated, they tend to be drawn to reds.

Reds are also extremely versatile when it comes to food matching, from the light, fruity Ontario Gamay Nouveau to more robust reds from Australia, Chile and Bordeaux.

Red wine sales grew by 14.3 per cent in dollar sales in fiscal 1998-99, and by 9.2 per cent in litres. The fact that dollar sales were higher indicates people are not just buying more wine, they're buying better wine.

A key driver in the red wine category this past year was Australia, whose reds increased in litre volume by 25.6 per cent, due to a combination of good product perceived to have a good price/value ratio, along with strong marketing by agents and suppliers and overall support from its trade commission. Reds from Spain and Portugal also did well, with increases of 10.8 and 25.5 per cent respectively.



Anthony Burns, Director, Wines

*\* Note: category totals provided in the three Product Trends sections do not include sales through Vintages or the LCBO Private Stock Program, and therefore do not match the totals found in the Financials section of this Annual Report.*

The fact that dollar sales were higher indicates people are not just buying more wine, they're buying better wine.



Red wines from Ontario also did extremely well in 1998-99 – especially those products that met the Vintners' Quality Alliance (VQA) standards for taste and quality. VQA reds from Ontario grew 11 per cent over the year before in dollar sales and 16.6 per cent in volume.

While white wines did not fare as well as reds – due in part to declining sales of Canadian and to a greater extent American products – whites as a whole did rise by 3.8 per cent in dollars, and 0.8 per cent in litres. The discrepancy in litre and value increases suggests that customers were trading up to premium products in this category as well.

Another growth category was rosé, especially products from the U.S. (up 16.8 per cent). Blended rosés from Ontario grew an impressive 60 per cent in volume sales last fiscal year.

### Varietals outselling blends

Varietals are wines made from particular grape varieties, as opposed to blends, and are named as such. Well-known red varietals include Cabernet Sauvignon, Merlot and Syrah (known as Shiraz in the New World); popular white varietals include Chardonnay, Sauvignon Blanc and Riesling. Varietals are now outselling blends in litre volume – another sign of increasing consumer sophistication. White varietals, for example, grew by 7.2 per cent while blends declined 1.9 per cent. Red varietals and blends both grew last fiscal year, but the former outpaced the latter 11.8 per cent to 6 per cent.

Purchasing trends indicate customers are becoming better acquainted with wine-growing regions around the world. One example: they are not just asking for Chardonnays – many are asking specifically for unoaked Chardonnays or for Bourgogne Chardonnay, Chablis or even wines from specific chateaux.

### Premium products popular

Most wines sold at the LCBO (not including Vintages) still sell for less than \$10. But that percentage dropped in litre volume from 94 per cent to under 92 this fiscal year as customers sought out more premium products.

While sales of wines under \$10 increased by 2.3 per cent, sales of wines between \$10 and \$15 increased by a whopping 42.6 per cent in litre volume. This premium price band was strong for whites as well as reds. Higher price bands also grew, albeit more slowly.

### New World on top

At one time, the majority of wines consumed in Ontario were produced in Europe, chiefly in France. Today, however, the tide has shifted, as New World wines (defined as those coming from anywhere but continental Europe) account for 52 per cent of LCBO wine sales.

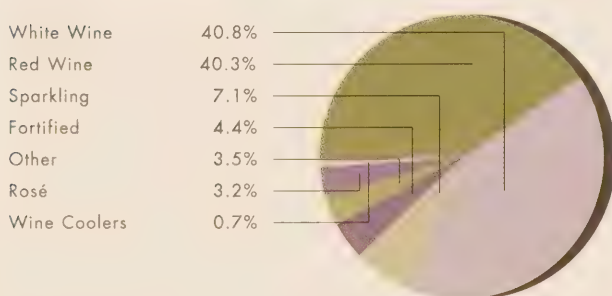
The leading producer in litre volume in the entire wine category is Canada, with a 33.3 per cent market share of all General List wine sales. On the New World side, Canada is followed by the United States (8.6 per cent of the total General List wine market), Chile (4.3 per cent), Australia (4.2 per cent) and South Africa (1.3 per cent). Other well regarded New World producers with market shares of less than one per cent include Argentina and New Zealand.

Leading European producers are France (23 per cent market share), Italy (15.2 per cent), Germany (2.7 per cent) Portugal and Spain (2 per cent each) and Greece (1 per cent). Other European producers with market shares of less than one per cent include Bulgaria, Croatia, Hungary and Romania.

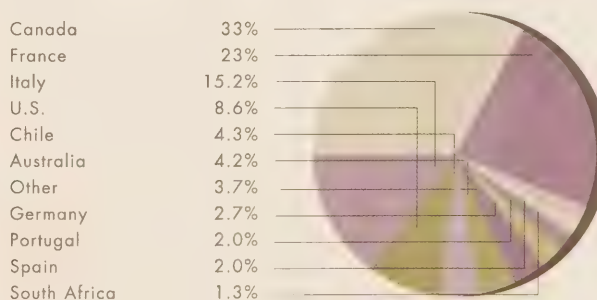
In all, the LCBO bought wines from 32 countries in fiscal 1998-99.

While Canadian red wines and rosés performed well this past fiscal year – growing by 8.7 and 70.1 per cent in litre volume respectively – domestic white wines did not fare as well. As a category, domestic whites declined 1.5 per cent, due in part to stiff price competition from other countries. Some Ontario suppliers also reported declining sales at their winery stores after the LCBO began opening its stores on Sundays.

Wine Sales by Product Type



Market Share by Country (litre volume)



### Looking ahead

The Wines Category will introduce an entirely new product line in the summer of 1999: refreshment flavoured wine beverages. These are varietal wines mixed with essences of fruit or lightly carbonated, generally low in alcohol (7-8.5 per cent), attractively packaged and targeted to an entry-level wine drinker. The LCBO will offer 14 of these products, nine from Ontario suppliers.

Fans of Ontario wines should take note: the 1998 vintage is being widely hailed as the province's best ever, both in quality and quantity. This applies to grapes used to make both table wines and Icewines.

Ontario wines may also gain greater access to international markets – especially the European union – thanks to new VQA legislation that will create a legislated appellation of origin system for premium products. The legislation, passed by the Ontario government this spring with input from the wine industry and LCBO, replaces the voluntary system in place since 1988. It will help protect the integrity of Ontario wines, and ensure that all wines bearing the VQA label have in fact met strict viticultural and technical standards.

Australia is expected to continue its success, thanks to continued interest in its big, bold red wines and their excellent price/value relationship. In fact, it should surpass Chile in volume sales this fiscal year. Spain should also have another good year, as its native Tempranillo grape – often compared to Merlot – may be the next popular varietal.

The LCBO will bring in more products from Eastern European countries such as Bulgaria, Romania and Hungary. These will be of interest not only to customers of Eastern European origin, but to anyone looking for the excellent value for which these wines are becoming known.

One of the biggest challenges for 1999-2000 is ensuring we have enough Champagne and sparkling wine on hand as customers prepare to welcome the new millennium.

Even though sparkling wine (including Champagne) usually accounts for less than six per cent of our wine business, almost everyone will want to “pop a cork” on December 31. Our wine team has been working since February, 1998 to secure more Champagne than usual from leading French houses. The problem is that many suppliers have not produced more Champagne to meet increased demand. So not every brand will be available in every LCBO store – but our customers should be able to find a brand of Champagne or sparkling wine that suits their taste and budget.



## PRODUCT TRENDS

# Spirits

**Because they contribute higher margins than wine or beer, spirits have long been considered the backbone of LCBO profitability.**

That backbone strengthened significantly this past fiscal year as the Spirits Category enjoyed a healthy 5.5 per cent increase in dollar sales over the year before. That's the best year-over-year increase in recent memory.

Overall, the category accounted for 48 per cent of LCBO net sales in fiscal 1998-99, or \$1.06 billion, but because of its higher margins, about 58 per cent of profits (\$609 million).

From the mid-1980s to the mid-1990s, however, spirit sales decreased sharply in Ontario and elsewhere. The main reasons

Bob Downey, Director, Spirits

## Product Trends: Spirits continued

for this decline were thought to be smuggling, cross-border shopping and the changing tastes of younger Ontarians. Only in the last three to four years has the decline flattened out and then reversed itself – more so in Ontario than in other Canadian liquor jurisdictions.

There are several reasons why spirit sales are better in Ontario today. We have brought interesting new products to market, including small batch Canadian and American whiskies, single malts, premium rums, vodkas and liqueurs.

The trade and the LCBO have worked diligently over the past six years to educate front-line Retail staff about the versatility of spirits through a program called *That's the Spirit*. The LCBO also launched several in-store thematic promotions to show customers how to entertain with spirits.

A low Canadian dollar slowed cross-border shopping, which had always involved spirits more than wine or beer. And the efforts of the LCBO and its enforcement partners helped cut into the illegal market, as did Sunday openings credit and debit card payment options and other customer service initiatives. The results: imported spirits were up 9.1 per cent this year and domestic spirits were up 3.7 per cent.

Canadian whisky – the largest product segment in Spirits, with just over 30 per cent of all sales – was up 1.1 per cent.

Single malts did well this year, up 10 per cent, though not as well as the year before when they grew by 20 per cent. Irish and American whiskies also enjoyed double-digit growth (up 12 and 13 per cent respectively).

Another fast-growing product was vodka, which boasted an 8.5 per cent increase over last year, due to its versatility and the renewed popularity of martinis and other cocktails.

Other categories that did well this year include light rum (up 8 per cent); gin (up 4.5 per cent); Cognacs (up 9.0 per cent); and most liqueurs.

The number of spirit products increased by about 100 this year, to 750. Many of these were bought in smaller quantities to better serve niche and ethnic markets.

As a rule, premium spirit products did particularly well this year, a testament to a strong economy and the increasing sophistication and adventurousness of the Ontario consumer. Time and again, we found that customers were willing to pay more for products they perceived to be of higher quality (as long as the relationship between price and quality remained clear).

Customers were also drawn to large-size formats (e.g., 1.75 litres). This had been the size most frequently bought in, or smuggled from, the U.S. in recent years; increased sales of this

size suggests more customers are now buying these products through the LCBO than from U.S. stores or smugglers. For the first time in seven years, suppliers raised prices above the minimum floor price of \$19.50. This increase had little negative impact on sales volume, which indicates customers still feel they are getting good value for their money.

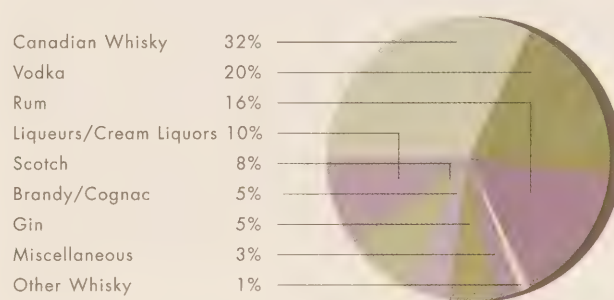
### Looking ahead

The Spirits Category is by far the biggest contributor to the LCBO's holiday giftpack program; we believe there is room to grow this business both in December and year-round as busy shoppers look for gifts for Father's Day, Valentine's Day, Chinese New Year and other such occasions.

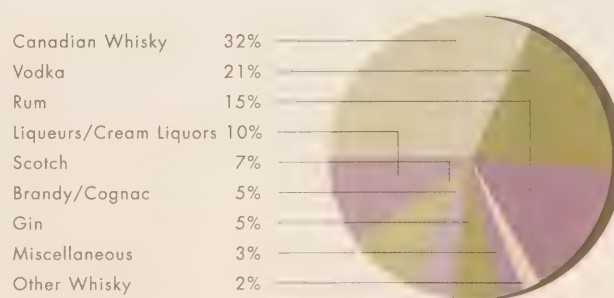
We'll continue to satisfy customer interest in premium products in all segments, including whiskies, rums, vodka and gin, tequila, Cognacs and liqueurs. Using market research and insights from store managers, we'll search out more products of interest to ethnic customers, including those from the Greek, Chinese, Italian, Portuguese and Eastern European communities.

And we'll look for opportunities to further educate our employees and customers about spirits and how they can best be enjoyed as part of a dining experience or on their own.

Spirits Market Share (litres) 1998-99



Spirits Market Share (dollars) 1998-99





# Beers

## & SPECIAL MARKETS

**Thanks in part to the long, hot summer of 1998, Beers & Special Markets enjoyed strong growth in fiscal 1998-99.**


Summer is the most important selling season for this category, which includes domestic and imported beer, coolers, ciders, ready-to-drink mixes and accessories. About 50 per cent of its business is done from May to September and given its focus on refreshment beverages, good weather usually helps boost sales.

While good weather provided an advantage, the LCBO leveraged it by offering a compelling product mix; in-store promotions; more refrigerated selling space than before; more opportunities for customers to sample new beers and other products through a Mix & Match program; and more Kosher products than ever before for Jewish customers.

The category's total business in 1998-99 was \$455 million, 17 per cent better in dollar sales than the year before and 16 per cent better in litre sales.

### **Coolers stand out**

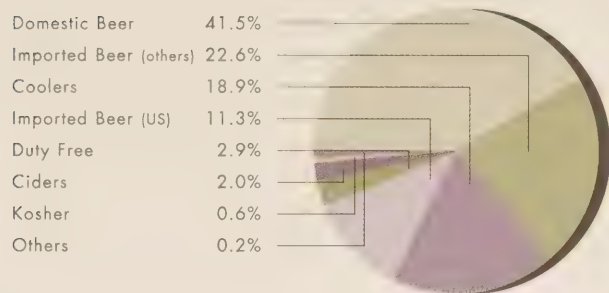
Perhaps the most successful segment of this category the past two years has been spirit coolers. Just a few years ago, this was a stagnant category, with most coolers viewed by consumers as glorified wine spritzers. Since then, products like Mike's Hard Lemonade have taken the marketplace by storm, growing the entire spirit cooler category by more than 30 per cent the past year and an astonishing 128 per cent over the previous two years. Analysts say this was due to a combination of good



*Keiran Kelly, Director, Beers & Special Markets*

Perhaps the most successful segment of this category the past two years has been spirit coolers.

1998-99 Value Sales (measured in dollars)



refreshing products; bold packaging that included a beer-style bottle and twist-off cap; effective advertising that helped position the product differently in the eyes of male consumers; and strong support at the licensee level, where some of these products first built a following. But analysts also say that spirit coolers may now be approaching their plateau in popularity; to sustain or increase growth, suppliers must continue to bring innovative new products to market, backing them with advertising and licensee support.

Some of the success of spirit coolers came at the expense of ciders, the only segment that shrank this fiscal year, by nearly 18 per cent. The LCBO will work with suppliers to determine what must be done to revitalize the cider category.

### Beer business grew

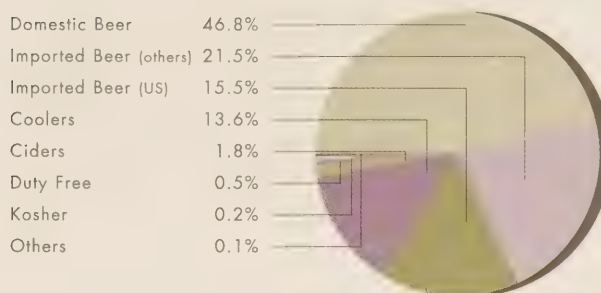
Every segment of the LCBO's beer business grew in fiscal 1998-99: domestic beer, which accounts for about 41.5 per cent of the category business, grew by 12.1 per cent; imported non-U.S. beer by 21.5 per cent; and U.S. beer by 22.2 per cent.

The vast majority of the LCBO's domestic beer business involves products from Labatt and Molson, but we also supplement this portfolio with dozens of cottage and microbrewery products from Ontario and other provinces. These products have been well received by customers looking for new and different tastes in beer.

On the import side, Corona and Heineken continued to dominate, but there were a few surprises as Guinness edged into the top 10 and a previously unheralded, relatively inexpensive Polish beer, Zywiec (pronounced Zhivitz) went from a niche product to mainstream success and a top-five position.

Because beer has lower margins than spirits or wines – especially domestic beer – the recent growth of beer sales in LCBO stores has led to some erosion in its gross margins as a percentage of sales, though margin dollars are still increasing. But we are pleased to carry a complete line of domestic and imported beers – many of them chilled – as a convenience to customers who value one-stop shopping, and as a traffic builder for our other categories.

1998-99 Volume Sales (measured in litres)



### Looking ahead

About 80 new products will be coming to market in 1999-2000. These include:

- flavoured beers from Belgium
- innovative new coolers, ciders and ready-to-drink products
- more cottage, micro and premium imports for the beer connoisseur
- more products of interest to ethnic consumers, such as beers from Poland, Spain, the Philippines and Finland, as well as premium saké;
- more Kosher products, which grew by 38 per cent last year.

The LCBO will also offer a revised and rationalized line of bar essentials and "best-in-class" accessories that can help consumers stock their bars, entertain guests, or round out a gift-giving list. Sales of accessories grew by 13 per cent last year, to a total of \$3.9 million, and we believe that improving our product line and ensuring consistent stock year-round will lead to further growth in 1999-2000.

Beers & Special Markets will hold more tastings and special events to educate and entertain consumers. It also plans to expand the Mix & Match program, which allows customers to try beers, coolers and ciders without necessarily having to buy them in six-packs. Some stores are also testing new "plan-o-grams," under which beers are grouped by country of origin, as are wines.

The LCBO will also expand its Summer Refreshment program by six weeks in 1999-2000, meaning there will be greater promotional support in stores for beers, coolers, ciders and other summer beverages from May 1 to October 15.

The LCBO will continue to offer more refrigeration in all new stores, and any that undergo renovation or expansion, as studies show the vast majority of consumers want to buy their beer cold – even if they don't plan on drinking it right away.



As a sign in its central Marketplace area proudly proclaims, the LCTO's new flagship store in Bayview Village Plaza is 'The Source for Entertaining Ideas.'

FOR ENTERTAINING IDEAS





# Bigger is better at Bayview

**SINCE ITS OPENING, THE STORE HAS BEEN  
UNIVERSALLY PRAISED BY CUSTOMERS, JOURNALISTS,  
WINE CRITICS AND GOVERNMENT OFFICIALS.**

**In February of 1998, LCBO Real Estate Manager Dan Pitt was on his way to inspect a potential store site when the news came over his car radio. Zellers had just bought Kmart Canada.**

Within 30 seconds, Pitt was on his car phone to a contact at Zellers, asking whether the company planned to keep the Kmart location at Bayview Village Plaza, at the corner of Bayview and Sheppard avenues in Toronto's affluent north end.

When the answer came back 'no,' Pitt could feel his excitement build. LCBO Store 355 in Bayview Village Plaza had outgrown its space and the LCBO had wanted to expand it or relocate for some time. We had eyed the Kmart space in particular, because our market research had turned up no suitable retail alternatives in the area.

Within two weeks, a deal for the space was struck. And a year later – on February 23, 1999 – the LCBO opened its biggest new store. The biggest liquor store in Canada, in fact.

The new Store 355 is 20,000 feet of retail space (and another 5,000 for warehousing) designed to 'wow' customers from the moment they walk in.

Tended by a handpicked staff of 54 that includes six product consultants, as well as visual merchandisers and special event co-ordinators, the store has:

- a kitchen that hosts cooking classes and beverage-and-food matching demonstrations;
- row upon row of products – some 2,900 in all – from the LCBO's General List and Special Purchases;

- a gleaming wood-paneled Vintages section with more than 1,800 premium products in stock;
- a Vintners' Quality Alliance (VQA) section showcasing more than 130 premium Ontario wines, many of which have won awards in open competitions worldwide;
- listening stations where customers can preview music to round out their entertaining atmosphere;
- nesting tables filled with useful entertaining accessories;
- a computer terminal where 'surfers' can look up product information on the Internet;
- and a gift centre, where shoppers can find the ideal gift for any occasion.

As a sign in the central Marketplace area proudly proclaims, the store is 'The Source for Entertaining Ideas.' Through its displays and services, it brings to life the LCBO's free consumer magazine, *FOOD & DRINK*.

Since its opening, the store has been universally praised by customers, journalists, wine critics and government officials.

Sales have been outstanding too – so much so that early sales revenue projections of \$15 million a year were revised upwards to \$18 million within a month of opening day. (Store 355 had been bringing in an average of \$11.5 million a year.) These sales increases have not come at the expense of neighbouring stores; LCBO research shows all other stores in the trading area have increased sales as well.

## **Success based on research**

While Store 355 is unique in size and its range of services, it was just one of 19 LCBO stores that renovated or relocated in fiscal 1998-99.

Like other major retailers, the LCBO must constantly re-evaluate its store network, and improve it wherever possible to ensure it is meeting customers' expectations for service, selection and accessibility. In fiscal 1998-99 we spent \$14 million to upgrade or relocate stores, an increase of 16 per cent over the year before.

Stores across the province benefited from this effort, including outlets in Baysville, Bowmanville, Burlington, Dundas, Georgetown, Ottawa, Pelée Island, Peterborough, Thunder Bay, Toronto and White River.

In each case, the improvements are designed to increase customer satisfaction and to generate sufficient additional revenue to pay for themselves.

In some cases, we close older outlets that date back to a time when liquor stores were relegated to Ontario's backstreets. Today, we're only interested in locations that are visible, easily accessible and close to where people live and shop.

In this we are guided by market research conducted by our Customer Insights Group, which uses everything from Statistics Canada research to our own detailed customer surveys to pinpoint the best possible locations for our stores.

Factors such as parking, visibility, barrier-free access, loading facilities and demographics are all considered before a lease is signed or ground broken for a new store.

Our five-year strategic plan calls for all new LCBO stores to fall into one of four formats: flagship, full-service, new IMAGE or mini.

**Flagship stores:** like the new Bayview Village store, they range up to 25,000 square feet and are located in large urban centres, carrying a global assortment of LCBO General List and Vintages products and gifts. They also offer a complete range of LCBO customer services and special events. We expect to open four to six more flagship stores over the next five years.

**Full-service stores:** up to 20,000 square feet in major and medium-sized urban markets, these stores provide customers with a complete range of LCBO products and services in easily accessible locations. They have a wide assortment of products (2,500-3,000), a gift centre, and a Vintages boutique carrying 500-800 brands. They also offer special events to suit the specific market. Up to 15 are scheduled to open over the next five years.



Above: a customer prepares to taste one of 1,800 premium products available in the Bayview store's gleaming wood-paneled Vintages section. Gizella Fekete, right, is one of six product consultants on hand to offer expert advice to customers and colleagues alike

Right: Customer Service Representative Aston Lee, left, helps a customer choose a gift from the Bayview store's extensive selection. The Bayview store is tended by a handpicked staff of 54, which also includes several visual merchandisers and special event co-ordinators.







*The Bayview store features several listening stations where customers can preview music to match the food and beverages with which they plan to entertain.*

**New IMAGE stores:** at 7,000-10,000 square feet, these stores provide customers with a wide range of LCBO products, services and special events in easily accessible locations. They carry 1,800-2,000 General List products and have a Vintages boutique with up to 500 brands. They are found in both major and smaller urban markets. Up to 50 will open over five years.

**Mini-stores:** at 600-3,000 square feet in high-traffic shopping areas, these stores are designed to service a specific customer niche and close the gap in under-served areas. Several target specific niche markets, like our Chinese kiosk in Markham, our Kosher kiosk in Thornhill and our Italian kiosk in Hamilton. Mini-stores offer 500 of the most popular brands from the General List and Vintages. As many as 25 more will open in the next five years.

By following this strategic plan, and heeding carefully the results of ongoing research, the LCBO retail network will evolve over the next five years to increase profitability; and to continue to meet and exceed customer expectations in every market we serve.

## BAYVIEW STORE WINS ERA AWARD

The LCBO's Bayview Village store won a prestigious Retail Store Layout & Design award at the Retail Council of Canada competition held June 14 in Toronto.

It was the fifth Excellence in Retailing (ERA) Award won by the LCBO in the last three years in open competition with other top Canadian retailers.

The ERA award shows how far the LCBO has come in recent years, noted VP Retail Gar Sherwood. "Improved store design – along with staff training, dynamic merchandising and expense control – has helped us improve customers' shopping experience and provide the government with record dividends the last four years."

The LCBO has won 27 design awards since 1990. This was the second time the LCBO won the ERA Store Layout & Design award – Store 528 in Toronto's Manulife Centre won it in 1996. Three other Toronto-area stores have been finalists: Store 452 on Avenue Road north of Lawrence Avenue; Store 697 on Queen Street East in the Beach neighbourhood; and the Bottle-Your-Own facility in Crossroads Plaza.

The LCBO was a finalist in every ERA category in 1999, including Innovative Retailer of the Year. The LCBO was named Innovative Retailer of the Year in 1997 and 1998, and has also won ERA awards for social responsibility (1997) and staff motivation and development (1998).





# Social Responsibility

**In May of 1998, on 265 movie screens across Ontario, a hard-hitting cinema commercial showed viewers how high a price they might pay if they chose to drive after drinking.**

The 90-second commercial was part of a multimedia LCBO campaign aimed at the group most likely to be charged at R.I.D.E. spot checks – socially active men aged 25-36.

The campaign included print ads in *Tribute* magazine, which is handed out free of charge in hundreds of cinemas across the province; the LCBO's popular consumer magazine *FOOD & DRINK*; and the French-language daily *Le Droit*. It also included three 30-second radio spots.

The overall message was that irresponsible drinking not only harms the person drinking, but others as well – family members, friends, innocent motorists.

Independent research showed that nine of 10 movie-goers strongly supported the commercial and its message, and at least half said it would make them reconsider the implications of driving after drinking.

The ad campaign was just one of many LCBO initiatives undertaken in fiscal 1998-99 to promote the socially responsible use of beverage alcohol.

The vast majority of people who drink do so responsibly. For the small minority that does not, the LCBO developed and/or delivered a number of programs to help protect public safety.

These included:

- Challenge and Refusal
- Promoting responsible consumption
- Fundraising
- Advertising
- Quality Assurance and the fight against illegal alcohol
- Partnerships.



*The largest ever LCBO social responsibility campaign, launched in partnership with MADD Canada, uses eye-catching three-dimensional billboards to send the message that "Drinking and driving is no accident."*

## Following are brief highlights of each component:

### **Challenge and Refusal:**

All LCBO Retail employees are trained to challenge and refuse service to any would-be customer who appears to be impaired or who appears underage and cannot produce valid ID. They also challenge and may refuse to serve "second-party purchasers" – anyone believed to be buying alcohol for minors or people already impaired. In fiscal 1998-99, employees challenged nearly 835,000 customers – almost 200,000 more than

the year before. The increase was partly due to our Check 25 program, which requires employees to ask anyone who appears to be 25 or younger for ID. LCBO staff refused to serve 95,000 this fiscal year, most of whom appeared to be underage and couldn't prove otherwise.

The LCBO issued 3,117 BYID cards in fiscal 1998-99. The tamper-resistant cards were introduced to help alcohol retailers and licensees determine whether prospective customers are of legal drinking age. Nearly 10,000 BYID cards have been issued by the LCBO since their inception in 1996.

#### **Promoting responsible consumption:**

The LCBO believes beverage alcohol is best enjoyed in moderation and reinforces that message through a variety of media. These include its Internet sites at [www.lcbo.com](http://www.lcbo.com) and [www.vintages.com](http://www.vintages.com); brochures like *Having a Party?*, which provides useful tips on responsible hosting; and articles, ads and recipes in *FOOD & DRINK* that show how beverage alcohol can be best matched with food. The LCBO also offers many low-alcohol wines, beers and spirits in its stores, and sets minimum prices for its products, to encourage responsible consumption. All LCBO shopping bags contain a responsible drinking message, and staff appear at many trade shows and festivals where they distribute materials on social responsibility.

#### **Fundraising:**

As part of its commitment to the communities it serves, the LCBO raises more than \$1 million a year for the United Way and other charities. In the fall of 1998, employees raised a record \$200,800 for the United Way, through their own donations and by staging special events. Donation boxes in our stores raised another \$260,000 for national and provincial organizations. An additional \$86,000 was raised for veterans through the sale of poppies in our stores. Other monies come from in-store tastings and many other events.

#### **Advertising:**

In addition to the cinema campaign mentioned before, the LCBO has advertised on television its commitment not to serve minors and regularly uses print media to reinforce other social responsibility messages. In 1999, we developed and launched an outdoor advertising campaign using a new (for us) medium: billboards. These eye-catching advertisements send the message that "Drinking and driving is no accident" –

whether the vehicle is a car, boat or snowmobile. More than 200 English and French billboards were mounted in 42 communities, including a number of innovative three-dimensional boards that held the actual wrecks of crashed cars and boats. The campaign, launched in partnership with MADD Canada, was timed to begin at the start of summer – the worst time of year for impaired driving crashes. It's scheduled to run through January, 2000.

#### **Quality Assurance and the fight against illegal alcohol:**

Every year, the LCBO Quality Assurance laboratory runs hundreds of thousands of tests to ensure all products meet exacting standards for taste and safety. Because of this effort, LCBO customers can buy new or familiar products, knowing they'll be safe to drink. The same, unfortunately, cannot be said of smuggled alcohol and illegally manufactured wine. These untested products have been found to contain numerous contaminants when seized by authorities, and pose a threat to the health of anyone who drinks them. To protect the health of consumers – and prevent the diversion of revenue from the government to criminal organizations – the LCBO works diligently with law enforcement agencies across the province to stem the flow of illegal alcohol. These efforts appear to be working. The illegal market was estimated at \$543 million in fiscal 1998-99, down about 7.5 per cent from the year before. This decrease can be traced not only to enforcement activities, but to the overall improvement of the LCBO shopping experience, which draws customers away from illegal channels. Year-round Sunday shopping and extended hours have certainly helped, since the illegal market is believed to do most of its business when LCBO stores are closed.

#### **Partnerships:**

Whatever success we've had in promoting the responsible use of alcohol, and protecting Ontario's communities from impaired driving and illegal alcohol, must be shared with many other organizations. In the past year alone, these included Ontario's Ministry of Transportation, MADD Canada, the Ontario Community Council on Impaired Driving, BACCHUS Canada, the Lifesaving Society, Canadian Coast Guard and the Canadian Power and Sail Squadrons, Ontario Federation of Snowmobile Clubs, McMaster University, the Association of Canadian Distillers, the Distillers Council of Ontario, Ontario Chiefs of Police and Variety Village.

The LCBO believes beverage alcohol is best enjoyed in moderation and reinforces that message through a variety of media.

## PUBLIC SECTOR DISCLOSURE ACT

The *Public Sector Disclosure Act*, passed by the Ontario Legislature in 1996, is designed to make the public sector more open and accountable to taxpayers. The Act requires Ontario's public sector organizations, including the LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees whose employment income is \$100,000 or more a year. In keeping with the requirements of the Act, the LCBO submits the following information for calendar 1998.\*

Name	Position	Employment Income	Taxable Benefits
Brandt, A.S.	Chair & CEO	\$104,054.91	\$391.84
Browning, J.A.	VP, Finance & Administration	\$158,648.53	\$472.72
Buck, P.	Director, Human Resources Services	\$100,909.97	\$344.56
Clute, C.P.	(seconded to Office of Privatization)	\$110,287.35	\$423.20
Dutton, R.	Director, Financial Planning & Economic Development	\$100,635.57	\$365.20
Ecker, R.	Director, Store Operations	\$100,107.65	\$363.52
Flynn, L.	Director, Store Operations	\$100,891.51	\$365.20
Gee, L.C.	Executive Vice President	\$158,134.34	\$584.60
Green, M.	Lawyer	\$102,123.42	\$148.14
Hartley, A.	Director, Product Management	\$100,635.76	\$365.20
Kane, M.	VP, Human Resources	\$143,647.65	\$457.64
Kelly, H.	VP, Information Technology	\$144,874.61	\$460.48
Kennedy, W.	Director, Corporate Communications	\$113,709.44	\$381.02
Martin, J.	VP, Logistics	\$143,647.65	\$457.64
Sherwood, G.	VP, Retail	\$158,648.53	\$472.42
Tattle, W.	Lawyer	\$102,120.58	\$379.98
Wilcox, D.	VP, Merchandising	\$161,893.14	\$476.74
Yazejian, L.	Director, General Audit	\$100,290.56	\$340.50

\*There are 18 names on this year's *Public Sector Disclosure Act* list, compared to 10 the year before. This increase is due in part to a pay-for-performance plan implemented for management and excluded employees in December, 1997, to bring LCBO salaries closer to industry standards. The plan was retroactive to July 1, 1997 but the first payment to many individuals came in January, 1998; the second cycle of pay-for-performance took effect in April, 1998. As a result, compensation information reported here encompasses two years' worth of increases and bonuses in many cases. Some directors also have been included because they opted to take unused Management Compensation Option (MCO) days as cash in lieu of days off. Management and excluded staff are eligible to receive five MCO days a year.



## RESPONSIBILITY FOR FINANCIAL REPORTING

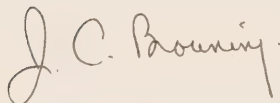
The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 11, 1999.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, comprised of three Members who are not employees/officers of the Board, meets periodically with management, the internal auditors, and the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on page 50, outlines the scope of the Auditor's examination and opinion.

On behalf of management:



Alex Browning  
*Vice President, Finance & Administration*

## KEY OPERATIONAL AND FINANCIAL STATISTICS

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, of permanent employees and of regular products listed.

### Operations

	1995	1996	1997	1998	1999
Number of LCBO Stores	597	596	595	596	600
Number of Permanent Employees	2,824	2,803	2,828	2,934	3,014
Number of Regular Products Listed	2,389	2,377	2,349	2,442	2,593

The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

### Financial (values in \$000s)

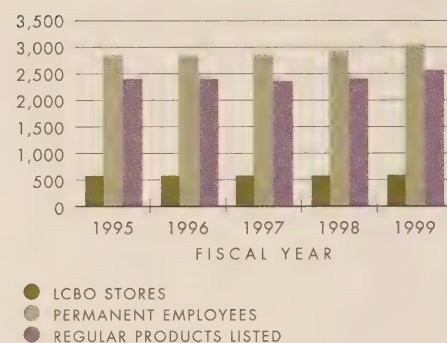
	1995	1996	1997	1998	1999
Net Sales and Other Income	1,808,518	1,909,804	2,013,873	2,160,843	2,349,832
% change/ previous year	2.48%	5.60%	5.45%	7.30%	8.75%
Operating Expenses	313,029	323,819	324,457	351,653	374,558
As a % of Net Sales and Other Income	17.31%	16.96%	16.11%	16.27%	15.94%
Net Income	637,299	666,717	701,030	744,904	809,425
As a % of Net Sales and Other Income	35.24%	34.91%	34.81%	34.47%	34.45%

Note: The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line listed in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the Sales Channel Summary on page 44.

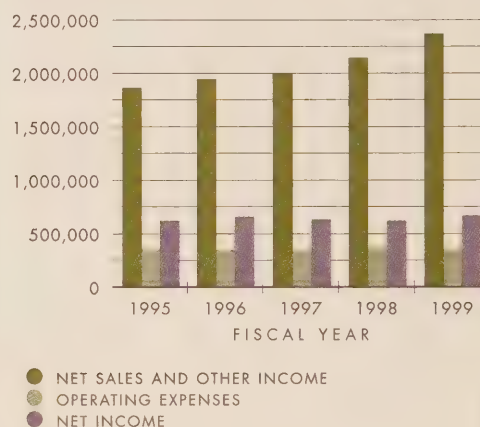
### Breakdown of Operating Expenses (values in \$000s)

	1995	1996	1997	1998	1999
Salaries and Benefits	200,344	204,629	203,699	218,631	231,486
Capital	18,613	20,962	22,167	24,666	25,580
Other Expenses	94,072	98,228	98,591	108,356	117,492
Total Operating Expenses	313,029	323,819	324,457	351,653	374,558

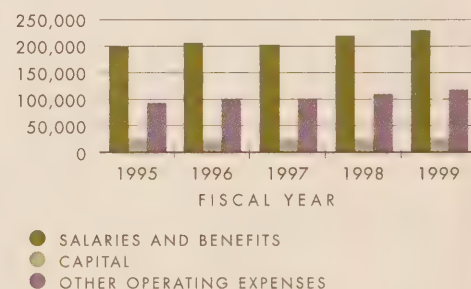
### Key Indicators: 1995-1999



### Financial Indicators: 1995-1999 (values in \$000s)



### Operating Expenses: 1995-1999 (values in \$000s)



## REVENUE PAYMENTS

Year ended March 31, 1999

The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

### Treasurer of Ontario (all values in \$000s)

	1995	1996	1997	1998	1999
Remitted by the LCBO:					
On account of profits	630,000	680,000	730,000	745,000	780,000
Remitted by the LCBO:					
Ontario retail sales tax on sales through liquor	174,189	182,762	192,357	202,148	220,645
**Remitted by the Liquor Licence Board:					
On account of licence fees and permits	532,116	529,690	520,829	505,656	519,472
**Remitted by others:					
Ontario retail sales tax on sales through Brewers Retail stores and Ontario winery retail stores	154,157	157,046	157,582	160,321	168,281
Ontario retail sales tax on sales through agency stores	1,927	2,301	2,565	2,839	3,305
<b>Total</b>	<b>1,492,389</b>	<b>1,551,799</b>	<b>1,603,333</b>	<b>1,615,964</b>	<b>1,691,703</b>

\*\* The Liquor Licence Board, now the Alcohol and Gaming Commission of Ontario (AGCO), Brewers Retail Inc. and Ontario winery stores are separate, non-LCBO businesses.

Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

### Receiver General for Canada

	1995	1996	1997	1998	1999
Remitted by the LCBO:					
Excise taxes and Customs duties	227,803	235,022	239,058	247,413	249,639
Goods and Services Tax	60,939	60,344	64,672	68,642	66,192
Remitted by others:					
Excise taxes, GST and other duties/taxes	319,839	327,660	342,763	329,802	333,407
GST remitted on sales through agency stores	1,124	1,343	1,496	1,656	1,928
<b>Total</b>	<b>609,705</b>	<b>624,369</b>	<b>647,989</b>	<b>647,513</b>	<b>651,166</b>

### Ontario Municipalities

	1995	1996	1997	1998	1999
Remitted by the LCBO:					
Grants in lieu of realty and business taxes	6,084	6,188	5,816	5,897	3,680
<b>Total Revenue Payments</b>	<b>2,108,178</b>	<b>2,182,356</b>	<b>2,257,138</b>	<b>2,269,374</b>	<b>2,346,549</b>

Note: These amounts do not include corporation realty and business taxes paid by the distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees and agency stores on sales of beverage alcohol is excluded from these figures. The 1999 figures for Remitted by others are slightly understated due to several brewers not reporting financial information at the time of publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.



## SALES VOLUMES

LCBO Sales (volume in 000s litres)

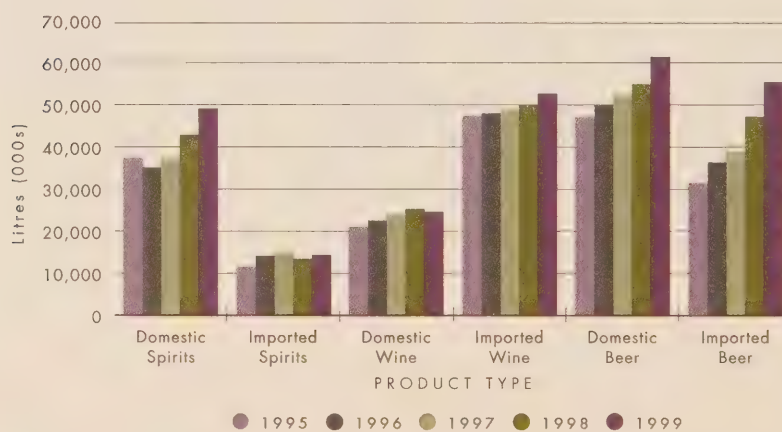
Product Type	1995	1996	1997	1998	1999
Domestic Spirits	30,836	30,585	30,615	31,015	31,834
Domestic Spirit Coolers	5,628	4,669	5,556	12,150	16,168
Imported Spirits	12,087	14,877	15,097	14,059	15,175
Total Spirits	48,551	50,131	51,268	57,224	63,177
Domestic Wine	20,483	22,208	24,957	25,845	25,795
Domestic Wine Coolers	1,042	903	895	718	544
Imported Wine	46,375	47,671	48,328	49,617	52,952
Total Wine	67,900	70,782	74,180	76,180	79,291
Domestic Beer	45,654	49,584	52,861	55,763	61,377
Domestic Beer Coolers	22	27	20	24	38
Imported Beer	31,012	35,873	39,021	47,082	55,827
Total Beer	76,688	85,484	91,902	102,869	117,242
Total Domestic	103,665	107,976	114,904	125,515	135,756
Total Imported	89,474	98,421	102,446	110,758	123,954
Total	193,139	206,397	217,350	236,273	259,710

(volume in 000s litres)

Product Type	1995	1996	1997	1998	1999
Sales by Ontario winery stores	11,960	13,164	14,411	14,838	13,878
Sales by Brewers Retail & on-site stores	670,494	670,539	653,106	654,284	654,413

Note: LCBO beer sales figures include LCBO sales to Brewers Retail Inc. The 1999 figures for sales by Brewers Retail and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication.

LCBO Sales Volume by Product Type: 1995-1999



## SALES VALUE

LCBO Sales (values in \$000s)

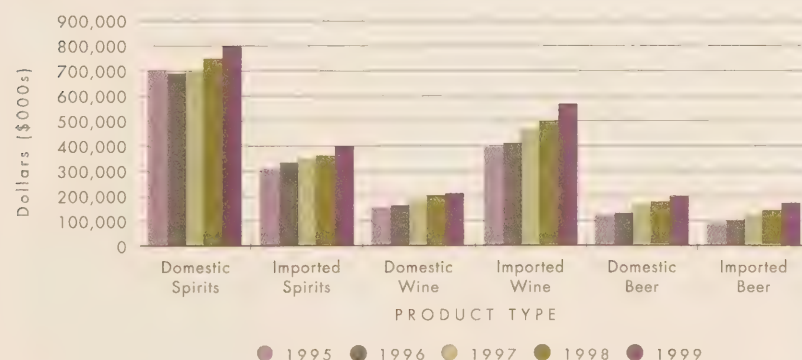
Product Type	1995	1996	1997	1998	1999
Domestic Spirits	678,101	671,080	680,092	691,165	717,270
Domestic Spirit Coolers	26,725	22,148	27,893	61,093	80,716
Imported Spirits	303,441	340,638	354,929	358,363	391,872
<b>Total Spirits</b>	<b>1,008,267</b>	<b>1,033,866</b>	<b>1,062,914</b>	<b>1,110,621</b>	<b>1,189,858</b>
Domestic Wine	143,105	158,888	178,563	190,809	201,723
Domestic Wine Coolers	3,739	3,347	3,209	2,612	1,976
Imported Wine	410,573	435,845	469,803	503,290	559,624
<b>Total Wine</b>	<b>557,417</b>	<b>598,080</b>	<b>651,575</b>	<b>696,711</b>	<b>763,323</b>
Domestic Beer	131,348	145,816	160,544	170,538	194,149
Domestic Beer Coolers	69	87	67	83	144
Imported Beer	90,143	107,275	118,567	145,326	174,284
<b>Total Beer</b>	<b>221,560</b>	<b>253,178</b>	<b>279,178</b>	<b>315,947</b>	<b>368,577</b>
<b>Total Domestic</b>	<b>983,087</b>	<b>1,001,366</b>	<b>1,050,368</b>	<b>1,116,300</b>	<b>1,195,978</b>
<b>Total Imported</b>	<b>804,157</b>	<b>883,758</b>	<b>943,299</b>	<b>1,006,979</b>	<b>1,125,780</b>
<b>Non Liquor</b>	<b>2,201</b>	<b>2,059</b>	<b>3,124</b>	<b>3,479</b>	<b>3,914</b>
<b>Total</b>	<b>1,789,445</b>	<b>1,887,183</b>	<b>1,996,791</b>	<b>2,126,758</b>	<b>2,325,672</b>

(values in \$000s)

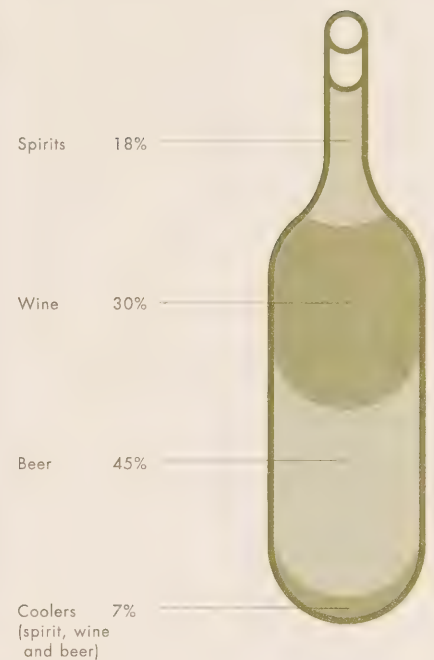
Product Type	1995	1996	1997	1998	1999
Sales by Ontario winery stores	83,369	95,227	106,257	114,805	111,765
Sales by Brewers Retail stores	1,792,638	1,809,030	1,804,847	1,858,377	1,937,004

Note: Sales values listed above for the LCBO and Ontario winery stores consist of net sales. Sales values for Brewers Retail Inc. consist of net sales plus GST. Category totals provided here include sales through Vintages and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends section of this Annual Report.

LCBO Sales Value by Product Type: 1995-1999



Share of Volume Sales



Share of Dollar Sales



## PRODUCT LISTINGS

	1995	1996	1997	1998	1999
<b>Domestic</b>					
Spirits	379	352	361	347	360
Wine	457	455	437	422	435
Beer	311	316	295	326	373
<b>Imported</b>					
Spirits	276	292	315	372	394
Wine	874	873	839	875	920
Beer	92	89	102	100	111
Total Regular Listings	2,389	2,377	2,349	2,442	2,593
Vintages Wines and Spirits	1,987	2,368	2,744	3,037	3,235
Duty-Free Listings	182	207	205	213	210
Consignment Warehouse and Private Stock	3,515	4,249	4,573	5,240	5,241
<b>Total Product Listings</b>	<b>8,073</b>	<b>9,201</b>	<b>9,871</b>	<b>10,932</b>	<b>11,279</b>

Note: Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

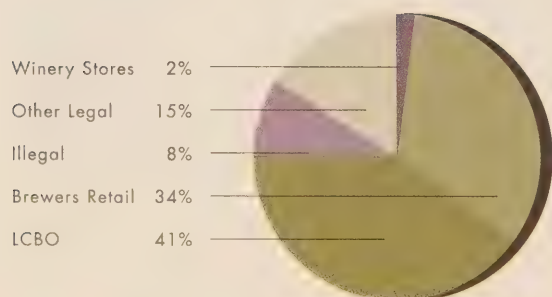
## SALES CHANNEL SUMMARY

(values in \$000s)

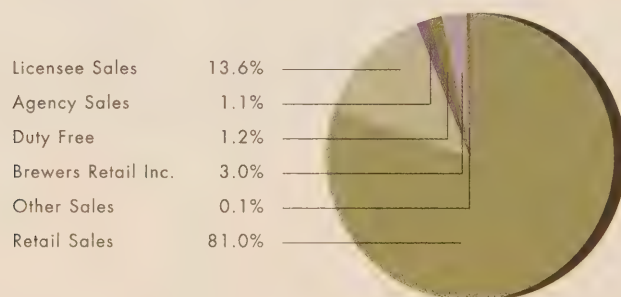
	1995	1996	1997	1998	1999
LCBO Total Sales	2,101,952	2,215,523	2,342,998	2,493,935	2,725,858
Brewers Retail Inc. Total Sales	1,951,825	2,060,219	2,075,664	2,114,467	2,214,918
Winery Retail Stores Total Sales	99,233	113,320	126,553	136,618	133,001
<b>Other Channels</b>					
Legal	435,155	603,701	801,799	861,708	888,670
Homemade	58,206	66,612	59,945	60,918	63,567
De-alcoholized Beer	19,600	20,117	19,217	17,708	23,872
Illegal	787,742	736,477	620,175	583,780	542,896
<b>Grand Total</b>	<b>5,453,713</b>	<b>5,815,969</b>	<b>6,046,351</b>	<b>6,269,134</b>	<b>6,592,782</b>

Note: All figures shown are gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail and Winery Store data were provided by the Brewers of Ontario and individual Winery Retail Stores. LCBO and Brewers Retail figures are slightly overstated due to reciprocal sales included in the individual totals. These are excluded in the Value by Sales Channel chart. Because of the availability of more accurate information for some of the categories in "Other Channels," estimates have been restated from 1995 to 1998 to facilitate comparison across the years.

Value by Sales Channel



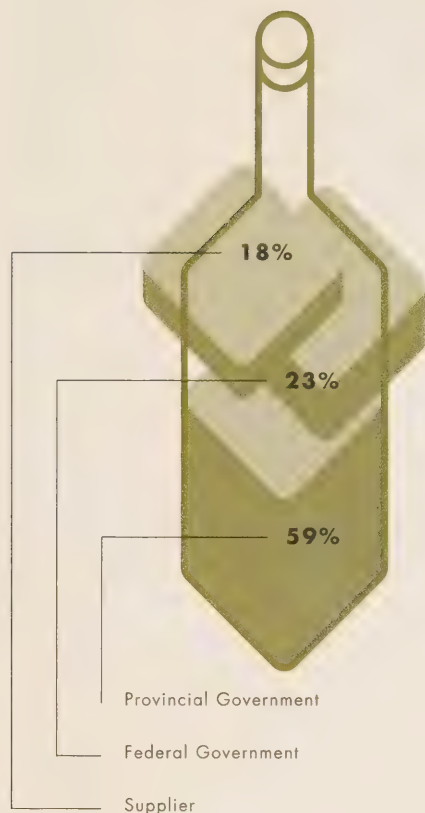
LCBO Value by Sales Channel



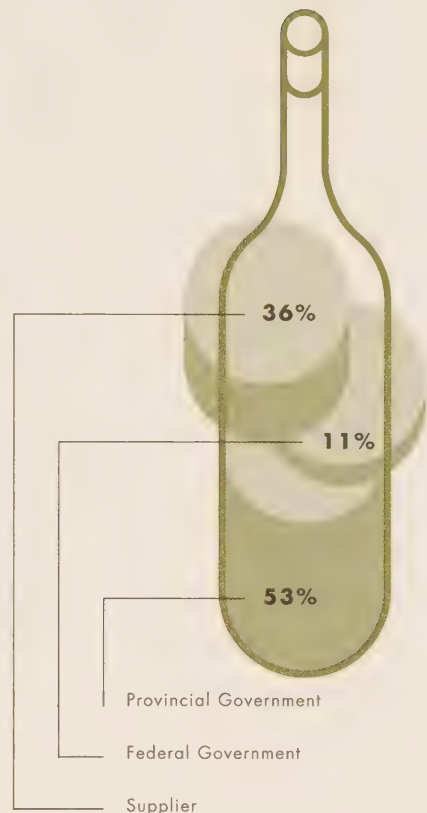


## REVENUE DISTRIBUTION

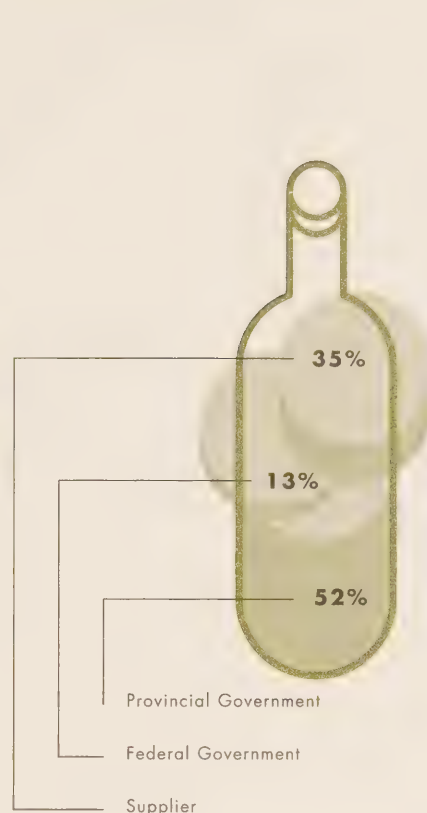
Domestic Spirits



Domestic Wine



Domestic Beer

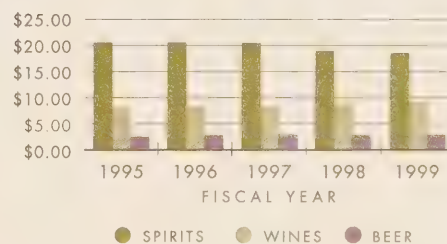


## AVERAGE LCBO RETAIL PRICES

	1995	1996	1997	1998	1999
Spirits	\$ 20.77	\$ 20.62	\$ 20.65	\$ 19.41	\$ 18.83
Wine	\$ 8.21	\$ 8.45	\$ 8.67	\$ 9.15	\$ 9.63
Beer	\$ 2.89	\$ 2.96	\$ 3.03	\$ 3.07	\$ 3.14
Average Transaction Value per Customer	\$ 25.06	\$ 25.98	\$ 26.69	\$ 27.40	\$ 28.07

Note: Average prices are exclusive of Ontario Retail Sales Tax and Goods and Services Tax.

Average Retail Prices  
Per Litre: 1995-1999



## LCBO SALES VOLUME BY CATEGORY

### Product Category Share

Category	1995	1996	1997	1998	1999
<b>Canadian Spirits</b>					
Canadian Whisky	41.3%	40.7%	39.9%	33.5%	30.4%
Canadian Rum	18.7%	18.6%	18.3%	15.6%	14.5%
Canadian Vodka	15.9%	16.6%	17.1%	15.4%	14.3%
Spirit Coolers	13.1%	13.3%	15.4%	28.1%	33.5%
Canadian Dry Gin	3.9%	3.6%	3.2%	2.5%	2.2%
Other	7.1%	7.2%	6.1%	4.9%	5.1%
<b>Imported Spirits</b>					
Scotch	26.2%	23.3%	23.0%	25.1%	23.8%
Liqueur	17.3%	16.6%	17.9%	19.1%	18.7%
Miscellaneous Liquors	13.5%	12.7%	11.9%	13.9%	13.2%
Vodka	11.0%	10.4%	11.0%	12.4%	13.9%
French Brandy	8.6%	8.1%	8.0%	9.3%	9.4%
Spirit Coolers	8.4%	11.1%	10.1%	0.9%	0.1%
Other	15.0%	17.8%	18.1%	19.3%	20.9%
<b>Canadian Wines</b>					
White Table	58.5%	56.1%	51.3%	49.2%	48.6%
Red Table	14.6%	17.0%	18.3%	20.5%	22.3%
7% Sparkling	7.1%	6.8%	6.3%	6.0%	6.1%
Sherry	6.7%	5.8%	5.0%	5.5%	4.5%
Wine Coolers	4.8%	3.9%	3.5%	3.7%	3.8%
Other	8.3%	10.4%	15.6%	15.1%	14.7%
<b>Imported Wines</b>					
White Table	53.6%	50.4%	46.7%	43.8%	42.3%
Red Table	34.0%	36.6%	39.0%	42.1%	43.2%
Champagne	3.8%	3.7%	3.7%	3.8%	4.1%
Sherry	2.0%	2.2%	2.2%	2.0%	1.3%
Other	6.6%	7.1%	8.4%	8.3%	9.1%
<b>Canadian Beer</b>					
Ontario Beer	95.4%	95.8%	94.3%	93.5%	92.4%
Other Canadian Beer	4.6%	4.2%	5.7%	6.5%	7.6%
<b>Imported Beer</b>					
U.S. Beer	48.6%	45.9%	42.8%	42.1%	41.8%
Other Imported Beer	50.9%	53.7%	56.9%	57.6%	57.9%
Saké	0.5%	0.4%	0.3%	0.3%	0.3%

## DETAILED SALES OF WINE BY VOLUME AND VALUE

LCBO sales only

### Volume (000s litres)

Product Type	1995	1996	1997	1998	1999
Red Wine	18,345	20,911	23,106	25,570	27,875
White Wine	36,793	36,313	35,226	34,093	34,483
Rosé Wine	1,365	1,677	2,108	2,493	2,853
Sparkling Wine	3,959	3,989	4,035	3,969	4,121
Fortified Wine	3,810	3,764	3,602	4,083	3,349
Wine Coolers	1,042	903	1,094	1,004	1,019
Other Wine	1,227	1,914	3,627	3,336	3,820
VQA Wines*	1,200	1,660	2,494	2,534	2,718

### Value (\$000s)

Product Type	1995	1996	1997	1998	1999
Red Wine	163,030	190,371	223,586	258,225	296,921
White Wine	280,061	284,955	287,892	288,217	301,198
Rosé Wine	10,460	12,846	16,341	19,983	23,490
Sparkling Wine	41,840	42,161	44,099	46,598	52,373
Fortified Wine	32,648	33,388	33,143	40,035	32,277
Wine Coolers	3,740	3,342	4,923	4,660	4,812
Other Wine	9,426	14,190	21,072	16,382	26,106
VQA Wines*	16,446	20,075	27,671	31,146	34,827

Note: \* VQA wine sales are reported as a separate consolidated figure and also within each product category.  
Sales figures of wine by volume and value exclude Private Stock sales.



## LCBO SALES BY COUNTRY OF ORIGIN - VALUE AND VOLUME

### SPIRITS

Country	Net Value	Litres
Canada	789,217,878	47,956,874
Great Britain	128,395,598	4,699,832
France	60,705,346	1,915,269
U.S.A.	33,792,070	1,804,438
Ireland	36,700,224	1,366,335
Sweden	26,640,810	1,162,303
Italy	25,503,243	1,100,339
Mexico	23,065,360	905,328
Finland	10,806,833	496,759
Russian Federation	4,793,854	212,338
Germany	5,204,664	207,403
Poland	3,698,249	165,384
Barbados	3,703,347	163,650
Greece	3,127,148	136,587
Netherlands	2,242,906	117,608
South Africa	2,245,923	98,733
Jamaica	2,410,242	88,231
Switzerland	1,906,749	60,221
Spain	1,112,197	50,595
Portugal	938,828	37,218
Cuba	835,024	34,807
Hungary	611,505	28,899
Bermuda	589,279	18,855
Croatia	497,690	18,736
Lebanon	413,678	17,344
Venezuela	416,669	16,911
Ukraine	383,188	16,538
Bahamas	345,308	15,158
India	342,128	14,988
Denmark	323,189	13,119
People's Republic of China	215,897	10,755
Austria	239,651	6,131

### Spirits continued

Country	Net Value	Litres
Belgium	145,568	4,003
Guyana	103,197	3,987
Israel	87,637	3,478
Czech Republic	87,145	2,994
Puerto Rico	67,350	2,522
Chile	60,787	2,154
Japan	37,445	1,836
Brazil	28,321	950
Macedonia	18,523	888
Philippines	18,854	864
Haiti	18,390	550
Estonia	13,751	525
Norway	17,938	500
Australia	2,027	78
Trinidad	590	34
Grenada	140	6
Martinique	151	1
<b>Grand Total</b>	<b>1,172,132,489</b>	<b>62,983,056</b>

## WINE

Country	Net Value	Litres
Canada	198,822,159	26,272,320
France	183,055,494	17,274,963
Italy	106,998,216	11,265,678
U.S.A.	79,811,848	7,314,017
Australia	42,101,594	3,243,140
Chile	31,281,642	3,214,290
Germany	18,627,993	1,940,521
Spain	17,864,590	1,575,138
Portugal	16,165,085	1,571,738
South Africa	9,963,252	969,279
Greece	5,190,471	702,742
Hungary	4,702,542	644,837
Bulgaria	2,549,508	357,323
Argentina	2,918,048	313,025
New Zealand	2,656,490	182,780
Great Britain	1,060,821	175,720
Israel	986,920	103,671
Croatia	812,732	102,948
Romania	533,744	72,602
Austria	372,735	30,392
Denmark	308,905	27,467
Jamaica	236,803	26,927
Macedonia	177,455	26,858
Mexico	241,486	24,383
Cyprus	171,716	21,173
Czech Republic	154,633	21,059
Uruguay	186,006	17,885
Morocco	98,818	11,544
Japan	73,325	7,623
Switzerland	65,167	3,198
Slovenia	24,559	2,183
Bolivia	12,483	1,117
Peru	11,931	792
Finland	1,300	125
Lebanon	4,559	101
Belgium	565	34
Turkey	30	5
<b>Grand Total</b>	<b>728,245,625</b>	<b>77,519,598</b>

## BEER

Country	Net Value	Litres
Canada	187,457,948	59,799,690
U.S.A.	52,473,066	20,062,708
Mexico	28,676,603	7,742,956
Netherlands	27,950,582	7,061,817
Germany	12,152,581	3,499,784
Great Britain	11,671,654	3,303,720
Ireland	6,476,003	1,581,194
Denmark	2,958,207	919,091
Poland	3,055,444	879,624
Czech Republic	2,278,017	676,016
Japan	1,648,653	400,339
Jamaica	997,547	261,138
People's Republic of China	816,386	220,441
Trinidad	681,640	177,643
Italy	562,681	161,885
South Africa	442,226	137,248
Belgium	666,810	122,984
New Zealand	344,566	101,202
Portugal	356,400	95,957
Croatia	189,840	50,792
Ukraine	101,668	31,031
Kenya	101,938	29,044
Cyprus	101,638	22,730
Greece	50,465	12,082
France	33,326	4,462
Austria	17,343	3,902
Brazil	15,585	2,831
Thailand	379	99
Switzerland	9	1
North Korea	1	1
<b>Grand Total</b>	<b>342,279,206</b>	<b>107,362,412</b>

Note: Net value represents net sales, excluding Private Stock sales.  
In fiscal 1998-99, the LCBO sold products from 63 different countries.

## AUDITOR'S REPORT

### To the Liquor Control Board of Ontario and to the Minister of Consumer and Commercial Relations

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 1999 and the statements of income and retained income and of changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario  
June 11, 1999

Erik Peters, FCA  
Provincial Auditor

### BALANCE SHEET

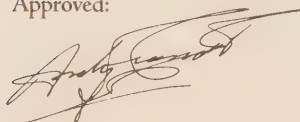
As at March 31, 1999 (in \$000s)

<b>Assets</b>	<b>1999</b>	<b>1998</b>
<b>Current</b>		
Cash and short-term investments (Note 3)	24,578	19,029
Accounts receivable, trade and others	6,061	12,446
Inventories	236,292	193,434
Prepaid expenses	8,843	5,811
	<b>275,774</b>	<b>230,720</b>
<b>Long-term</b>		
Capital assets (Note 4)	148,183	132,958
	<b>423,957</b>	<b>363,678</b>
<b>Liabilities and Retained Income</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	210,029	179,175
Retained income	213,928	184,503
	<b>423,957</b>	<b>363,678</b>

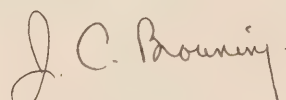
Commitments (Note 5)

See accompanying notes to financial statements.

Approved:



Chair and Chief Executive Officer



Vice President  
Finance and Administration



## STATEMENT OF INCOME AND RETAINED INCOME

Year Ended March 31, 1999 (in \$000s)

	1999	1998
Sales and other income	2,349,832	2,160,843
Costs and expenses		
Cost of sales	1,165,849	1,064,286
Retail stores and marketing	276,554	249,747
Warehousing and distribution	37,917	38,293
Administration	34,507	38,947
Amortization	25,580	24,666
	1,540,407	1,415,939
Net income for the year	809,425	744,904
Retained income, beginning of year	184,503	184,599
	993,928	929,503
Deduct dividend paid to Province of Ontario	776,000	745,000
Paid to municipalities on behalf of the Province of Ontario (Note 9)	4,000	—
	780,000	745,000
Retained income, end of year	213,928	184,503

See accompanying notes to financial statements.

## STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 1999 (in \$000s)

	1999	1998
Cash provided from operations		
Net income	809,425	744,904
Amortization	25,580	24,666
Gain on sale of capital assets	(540)	(63)
	834,465	769,507
Change in working capital	(8,651)	(29,537)
	825,814	739,970
Cash used for investment activities		
Purchase of capital assets	(40,958)	(25,654)
Proceeds from sale of capital assets	693	130
	(40,265)	(25,524)
Cash used for dividend paid to Province	(776,000)	(745,000)
Cash used for payment to municipalities on behalf of Province of Ontario	(4,000)	—
(Decrease) Increase in cash during the year	5,549	(30,554)
Cash and short-term investments, beginning of year	19,029	49,583
Cash and short-term investments, end of year	24,578	19,029

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

As at March 31, 1999

### 1. NATURE OF THE CORPORATION

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Consolidated Revenue Fund in the form of a dividend.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Accounting

The Board's financial statements are prepared in accordance with generally accepted accounting principles.

#### (b) Inventories

At March 31, 1999, inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

#### (c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

### 3. CASH AND SHORT-TERM INVESTMENTS

The Board's investment policy restricts short-term investments to high-liquid, high-grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

Cash and short-term investments include \$15.5 million (1998 - \$13 million) of investments maturing within one year, yielding 5.1 per cent (1998 - 4.95 per cent) on average, with a market value that approximates carrying value.

### 4. CAPITAL ASSETS

	1999		1998	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
(in \$000s)				
Land	13,848	–	13,848	13,941
Buildings	244,292	165,218	79,074	81,481
Furniture and Fixtures	33,820	28,157	5,663	4,839
Leasehold Improvements	78,585	55,663	22,922	15,698
Computer Equipment	78,266	51,590	26,676	16,999
<b>Total</b>	<b>448,811</b>	<b>300,628</b>	<b>148,183</b>	<b>132,958</b>

### 5. LEASE COMMITMENTS

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	(in \$000s)
2000	23,600
2001	20,809
2002	17,421
2003	13,867
2004	10,496
Thereafter	56,382
	<b>142,575</b>

**6. PENSION PLAN**

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Board's expense related to the PSPF and the OPSEU Pension Fund for the year was \$9.9 million (1998 - \$14.4 million) and is included in Costs and Expenses in the Statement of Income and Retained Income.

**7. HEDGING**

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 1999, the Board had \$1,485,000 (1998 - \$Nil) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

**8. YEAR 2000**

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors or systems failures when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on the Board's operations and financial reporting may range from minor

errors to significant systems failure which could affect the Board's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Board, including those related to the efforts of its customers, suppliers, or other third parties to be Year 2000 compliant, will be fully resolved on a timely basis.

**9. TRANSFER TO MUNICIPALITIES**

The Board was directed by Cabinet to contribute \$4.0 million in 1998-99, directly to municipalities, based upon a funding formula developed by the Ministry of the Environment (MOE). This contribution is to support MOE's waste diversion program. Cabinet further directed that \$5.0 million be paid in each of the fiscal years 1999-2000 and 2000-2001.



THE DIRECTORS OF THE LCBO, LIKE THOSE OF OTHER PROVINCIAL GOVERNMENT AGENCIES, BOARDS AND COMMISSIONS, ARE APPOINTED BY THE SITTING GOVERNMENT THROUGH ORDER-IN-COUNCIL. APPOINTMENTS, UP TO FIVE YEARS, ARE SOMETIMES RENEWED.

# THE LCBO Board of Directors

*Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. Left to right are Members Dick Dolphin, Richard Ling, Chantal Haas, John Hopper, Merle Jacobs and John Lacey.*



**ANDREW S. BRANDT:****Appointed Chair and Chief****Executive Officer February 6, 1991.**

Re-appointed in March 1997 for an unprecedented third three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. One of Canada's top 200 CEOs, according to the *Financial Post* magazine, he was named Business Support Person of the Year by the Ontario Grape and Wine Festival in 1997. He has also been appointed an Officer of France's *Ordre du Merite Agricole* and a Chevalier in the *Confrerie des Chevaliers du Tastevin*, and was admitted to the roll of the Keepers of the Quaich in Scotland.

**DICK DOLPHIN:****Appointed October 7, 1997.**

A Fellow of the Institute of Chartered Accountants of Ontario, Mr. Dolphin retired in 1997 from financial services giant KPMG, for whom he had worked for 23 years. He spent many of those years as managing partner of its Thunder Bay office, practising his specialty of municipal finance. Mr. Dolphin spent six years as a director of the Thunder Bay Chamber of Commerce, including one year as president, and is currently 1st vice-chair of the Ontario Chamber of Commerce. He served on Thunder Bay's St. Joseph's Hospital Board in several capacities between 1986 and 1991, including a term as Chair of its Finance and Audit Committee. He was also a member of the Port Arthur Rotary Club from 1984 to 1997. Mr. Dolphin now resides in Peterborough, where he owns and operates the consulting firm Dick Dolphin & Associates.

**CHANTAL HAAS:****Appointed Vice-Chair May 15, 1995.**

The first woman to hold the position of Vice Chair of the LCBO, Ms. Haas was recently appointed to a second three-year term. The Managing Director and National Public Relations Director for Bradson Staffing Services Inc., she led an executive committee in merging two long-standing organizations – namely the Association of Professional Placement Agencies & Consultants (APPAC) and Employment & Staffing Services Association of Canada (ESSAC) – and is president-elect of the newly created national organization ACSESS (Association of Career Search, Employment and Staffing Services). Ms. Haas has inspired many young women entrepreneurs through her extensive involvement with the Step Ahead One-on-One Mentoring Program. An active participant in Toronto's French community, she was the first woman to serve two terms as President of *Le Cercle Canadien de Toronto*. In 1998, she was elected first woman president of the French Chamber of Commerce (Ontario) and was re-elected in June 1999. In 1997 she was appointed to the Executive Committee of the Economic Development Fund, Office of Francophone Affairs. She is a member of the *Association des Femmes d'Affaires Francophones* and appears in the International, Canada and Ontario *Who's Who*.

**JOHN C. HOPPER:****Appointed September 8, 1997.**

A native of Ottawa, Mr. Hopper began work in automobile sales there in 1963. He moved to North Bay in 1971 to establish John C. Hopper Pontiac Buick, and is today President and Dealer Principal of Hopper Automobile Ltd., and President of Saturn of North Bay. He was a founding member of the North Bay Automobile Dealers Association and the Northern Ontario Automobile Dealers Association, and past president of the Ontario Automobile Dealers Association. A former North Bay city councillor, he has a long history of community service: he is a member of North Bay Masonic Lodge, a member and past president of both the Rorab Shrine Club and North Bay Kiwanis Club; a member of the Northern Ontario Cancer Research Foundation; and chaired the \$7,000,000 fund raising committee for the Partners for Life Hospital campaign. He was the Kiwanis Club's Citizen of the Year in 1993. In 1998, he was elected a Mel Osbourne Fellow to the Kiwanis Foundation of Canada.

**MERLE A. JACOBS:****Appointed December 17, 1997.**

Ms. Jacobs began her career as a nurse, eventually becoming a nurse manager in the department of psychiatry at North York Branson Hospital. Over nearly 30 years in the field, she has also pursued her education, and has now completed a Diploma in Nursing, a Bachelor of Arts degree, a Master's, and all the course work for a Ph.D. in Sociology at York University. Her professional experience and studies have shared a focus on mental health, as does much of her extensive volunteer work. She has served on the Board of Toronto's Queen Street Mental Health Centre and the North York Chapter of the Canadian Mental Health Association. She is also a director of Roots Cultural Foundation and Royal Business Training Centre. As a practising nurse psychotherapist and owner of The Lawrence Centre, Ms. Jacobs has also developed her business planning and budgeting skills, as well as her knowledge of human resources issues.

**JOHN S. LACEY:****Appointed June 26, 1996.**

Mr. Lacey is a veteran of the retail, hospitality and communications industries, with nearly 35 years of experience with companies such as Oshawa Group Ltd., WIC Western International Communications Ltd., Scott's Hospitality Inc., Molson, Loblaw's, and the Holiday Inn and Marriott hotel chains. Now non-executive Chairman of Loewen Group Inc., Mr. Lacey is a graduate of the Harvard Business School who emigrated to Canada in 1978 and became a Canadian citizen in 1983. Mr. Lacey is also a director of Scott's Restaurants Inc. and I-Metrix Inc., and Chairman of Doncaster Racing Ltd. His community interests include the Centre for Studies of Children at Risk, which is affiliated with McMaster University and Chedoke-McMaster Hospitals.

**RICHARD LING:****Appointed September 8, 1997.**

Before becoming Resident Principal of Borden & Elliott's York Region Office, lawyer Richard Ling was Senior Partner in the firm Ling & Wong; Managing Director of Lehndorff Asia Inc.; and Resident Counsel for Graham & James in Beijing. The Chinese-born Willowdale resident speaks five languages, and is well versed in banking, real estate and corporate practice. He is a former Governor of Sheridan College and a former Director of St. Michael's Hospital Foundation Board; the Richmond Hill & Markham Chinese Business Association; Mon Sheong Foundation for the Aged; and the Chinese Cultural Centre of Greater Toronto.

# LCBO Useful Facts

AS OF MARCH 31, 1999

## THE MARKETPLACE

600 Number of LCBO stores serving communities across Ontario

102 Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store

823 Number of Beer Stores, Ontario winery stores, on-site distillery and brewery outlets and privately-operated duty-free stores in Ontario

41.5 Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO

\$6.6 billion Total estimated value of Ontario's beverage alcohol market

\$543 million Estimated value of Ontario's illegal alcohol market

## OUR STORES

20 Number of LCBO stores offering more than 2,500 brands for sale

179 Number of LCBO stores offering 1,500–2,500 brands for sale

154 Number of LCBO stores offering 1,000–1,500 brands for sale

202 Number of LCBO stores offering 500–1,000 brands for sale

45 Number of LCBO stores offering fewer than 500 brands for sale

6,466 Number of product tastings conducted in LCBO stores in fiscal 1998-99

7 Number of days per week most LCBO stores are open

83 million Total number of transactions in LCBO stores in fiscal 1998-99

21 Percentage of all LCBO transactions paid by debit card

18 Percentage of all LCBO transactions paid by credit card

## OUR FINANCIAL PERFORMANCE

\$2.35 billion The LCBO's net sales and other income in fiscal 1998-99

\$780 million Dividend the LCBO transferred to the Government of Ontario for fiscal 1998-99 (excluding taxes)

\$2.255 billion Amount the LCBO transferred to the Consolidated Revenue Fund the last three fiscal years combined (excluding taxes)

406% Percentage return on taxpayers' equity in fiscal 1998-99

35 The LCBO's profit margin, expressed as a percentage, in fiscal 1998-99

16 The LCBO's operational expenses as a percentage of net sales for fiscal 1998-99 (down from 19 per cent in fiscal 1993-94)

\$220.6 million Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) in fiscal 1998-99

\$316 million Amount the LCBO transferred to the federal government in GST, excise taxes and Customs duties in 1998-99

\$14 million Amount the LCBO spent on capital improvements to its stores (renovations, relocations, etc.) in 1998-99



# Statistical Insert

**FOR LCBO ANNUAL REPORT, FISCAL 1998-1999**

## PRODUCT LISTINGS

	1995	1996	1997	1998	1999
<b>Domestic</b>					
Canadian Whisky	103	99	94	100	101
Canadian Blended Rums	69	64	68	73	73
Canadian Gin	16	14	17	16	16
Canadian Vodka	50	47	45	46	46
Canadian Brandy	4	4	6	6	6
Canadian Blended Brandy	12	14	8	8	8
Canadian Spirit Coolers	31	25	38	29	29
Fruit Spirits	3	3	1	1	1
Miscellaneous Liquors	7	6	26	25	25
Canadian Liqueurs	66	57	47	43	46
Ontario Wines	420	421	403	378	385
Ontario Wine Coolers	14	11	7	5	3
Other Canadian Wines	16	14	10	25	31
Canadian Cider	7	9	17	14	16
Canadian Beer (incl. Beer Coolers)	311	316	295	326	373
Alcohol	6	6	0	0	2
Miniatures	9	10	8	5	4
Bitters	3	3	3	3	3
<b>Imported</b>					
Scotch Whisky	63	58	69	76	83
Irish Whiskey	4	4	3	3	5
American Whiskey	5	5	10	10	13
Gin	16	16	10	10	12
Rum	10	9	11	10	8
Vodka	19	22	23	24	23
Tequila	9	8	11	9	9
Brandy	31	43	45	47	56
Fruit Spirits	10	2	2	3	2
Miscellaneous Liquors	7	4	11	53	62
Liqueurs	73	77	76	91	91
Wines	874	873	839	870	920
Beer and Saké	92	89	102	97	111
Miniatures	12	19	24	19	17
Coolers	6	19	12	9	3
Bitters	11	6	8	8	10
Total Regular Listings	2,389	2,377	2,349	2,442	2,593
Vintages Wines and Spirits	1,987	2,368	2,744	3,037	3,235
Duty-Free Listings	182	207	205	213	210
Consignment Warehouse and Private Stock	3,515	4,249	4,573	5,240	5,241
Total Product Listings	8,073	9,201	9,871	10,932	11,279

Note: Consignment Warehouse and Private Stock product listings are estimates based on invoices which are produced by Specialty Services.

## SALES CHANNEL SUMMARY

(values in \$000s)

LCBO	1995	1996	1997	1998	1999
Retail Sales	1,740,387	1,827,840	1,923,750	2,022,638	2,209,024
Licensee Sales	288,956	297,233	314,652	347,083	370,496
Agency Sales	17,005	20,329	22,643	25,059	29,180
Duty-Free/Warehouse	12,640	15,108	17,349	17,318	20,696
Duty-Free/LCBO	9,869	11,425	12,156	13,367	13,028
BRI Sales	29,729	40,150	48,920	64,891	80,438
Other Sales	3,366	3,438	3,528	3,579	2,996
<b>Total</b>	<b>2,101,952</b>	<b>2,215,523</b>	<b>2,342,998</b>	<b>2,493,935</b>	<b>2,725,858</b>

### Brewers Retail Inc.

Retail & Licensee Sales	1,951,825	2,060,219	2,075,664	2,114,467	2,214,918
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### Winery Stores

Retail Sales	99,233	113,320	126,553	136,618	133,001
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### Other Channels

#### Legal:

Cross-Border Exempt	147,538	148,305	141,372	153,479	136,213
Cross-Border Declared	1,599	2,333	2,524	3,054	3,862
Brew Pubs	2,452	2,496	1,467	1,737	1,652
Wine Pubs	694	1,558	2,904	3,952	4,233
U-Brew-Beer	82,745	114,127	151,482	149,534	157,633
U-Brew-Wine	200,127	334,882	502,050	549,952	585,077
<b>Total</b>	<b>435,155</b>	<b>603,701</b>	<b>801,799</b>	<b>861,708</b>	<b>888,670</b>

#### Homemade:

Wine	43,496	51,638	43,823	44,071	45,807
Beer	14,710	14,974	16,122	16,847	17,760
<b>Total</b>	<b>58,206</b>	<b>66,612</b>	<b>59,945</b>	<b>60,918</b>	<b>63,567</b>

<b>De-alcoholized Beer</b>	19,600	20,117	19,217	17,708	23,872
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#### Illegal:

Smuggling	541,267	454,001	421,443	393,991	353,344
Wine Manufacturing	246,475	282,476	198,732	189,789	189,552
<b>Total</b>	<b>787,742</b>	<b>736,477</b>	<b>620,175</b>	<b>583,780</b>	<b>542,896</b>
<b>Grand Total</b>	<b>5,453,713</b>	<b>5,815,969</b>	<b>6,046,351</b>	<b>6,269,134</b>	<b>6,592,782</b>

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail Inc. and Winery Store sales data were supplied by the Brewers of Ontario and individual wineries.



## RETAIL PRICE BREAKDOWNS

### SPIRITS

Examples as at March 31, 1999 for 750 mL bottle in Canadian Dollars

	Imported U.S.	Imported Non-U.S.	Domestic
Payment to Supplier	\$3.5542	\$3.4992	\$3.5633
Federal Excise Tax	\$3.3198	\$3.3198	\$3.3198
Federal Import Duty	\$0.0000	\$0.0161	\$0.0000
Freight	\$0.0258	\$0.2208	\$0.0467
Total Landed Cost	\$6.8998	\$7.0559	\$6.9298
LCBO Mark-up	\$10.0116	\$10.2311	\$9.5631
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0087	\$0.0113	\$0.0070
Basic Price	\$17.23	\$17.61	\$16.81
Goods and Services Tax	\$1.21	\$1.23	\$1.18
Provincial Retail Sales Tax	\$2.07	\$2.11	\$2.02
Consumer Price	\$20.50	\$20.95	\$20.00

### Revenue Distribution

Supplier (including freight)	\$3.58	\$3.72	\$3.61
Government of Canada	\$4.53	\$4.57	\$4.50
Government of Ontario	\$12.39	\$12.66	\$11.89

### WINE

Examples as at March 31, 1999 for 750 mL bottle in Canadian Dollars

	Imported U.S.	Imported Non-U.S.	Domestic 100% Ont.
Payment to Supplier	\$2.6400	\$2.6400	\$2.6400
Federal Excise Tax	\$0.3842	\$0.3842	\$0.3842
Federal Import Duty	\$0.0000	\$0.0289	\$0.0000
Freight	\$0.1669	\$0.2038	\$0.0000
Total Landed Cost	\$3.1911	\$3.2569	\$3.0242
LCBO Mark-up	\$2.0423	\$2.0844	\$1.7540
LCBO Wine Levy	\$1.1250	\$1.1250	\$1.1250
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0156	\$0.0310	\$0.0050
Basic Price	\$6.68	\$6.80	\$6.21
Goods and Services Tax	\$0.47	\$0.48	\$0.44
Provincial Retail Sales Tax	\$0.80	\$0.82	\$0.75
Consumer Price	\$7.95	\$8.10	\$7.40

### Revenue Distribution

Supplier (including freight)	\$2.81	\$2.84	\$2.64
Government of Canada	\$0.85	\$0.89	\$0.82
Government of Ontario	\$4.29	\$4.37	\$3.94

**BEER**

Examples as at March 31, 1999 for a case of 24 x 341 mL bottles in Canadian Dollars

	<b>Imported U.S.</b>	<b>Imported Non-U.S.</b>	<b>Domestic</b>
Payment to Supplier	\$7.4700	\$10.1400	\$10.2000
Federal Excise Tax	\$2.2903	\$2.2903	\$2.2903
Federal Import Duty	\$0.0000	\$0.0982	\$0.0000
Freight	\$0.3700	\$2.6300	\$0.4000
<b>Total Landed Cost</b>	<b>\$10.1303</b>	<b>\$15.1585</b>	<b>\$12.8903</b>
LCBO In-store COS	\$4.9595	\$4.9595	\$4.9595
LCBO Out-of-store COS	\$1.3422	\$1.3422	\$0.0000
LCBO Mark-up	\$4.0920	\$4.5066	\$4.0920
LCBO Bottle Levy	\$1.4404	\$1.4404	\$1.4404
LCBO Environment Fee	\$0.0000	\$0.0000	\$0.0000
LCBO Rounding Revenue	\$0.0104	\$0.0298	\$0.0212
<b>Basic Price</b>	<b>\$21.97</b>	<b>\$27.44</b>	<b>\$23.40</b>
Goods and Services Tax	\$1.54	\$1.92	\$1.64
Provincial Retail Sales Tax	\$2.64	\$3.29	\$2.81
Container Deposit	\$2.40	\$2.40	\$2.40
<b>Consumer Price</b>	<b>\$28.55</b>	<b>\$35.05</b>	<b>\$30.25</b>
Supplier (including freight)	\$7.84	\$12.77	\$10.60
Government of Canada	\$3.83	\$4.31	\$3.93
Government of Ontario	\$14.48	\$15.57	\$13.32
Container Deposit	\$2.40	\$2.40	\$2.40

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

## ELEVEN-YEAR FINANCIAL PERFORMANCE REVIEW

(values in \$000s)

	1999	1998	1997	1996	1995
<b>Statement of Earnings</b>					
Sales and Other Income	\$2,349,832	\$2,160,843	\$2,013,873	\$1,909,804	\$1,808,518
Cost of Sales	\$1,165,849	\$1,064,286	\$988,386	\$919,268	\$858,190
Gross Profit	\$1,183,983	\$1,096,557	\$1,025,487	\$990,536	\$950,328
Per Cent	50.39%	50.75%	50.92%	51.87%	52.55%
Operating Expenses	\$374,558	\$351,653	\$324,457	\$323,819	\$313,029
Net Income	\$809,425	\$744,904	\$701,030	\$666,717	\$637,299

### Statement of Cash Flow

Cash Flow from Operations	\$834,465	\$769,507	\$723,197	\$687,663	\$655,198
Change in Working Capital	(\$8,651)	(\$29,537)	\$49,819	\$9,659	\$5,473
Cash Used for Investing Activities	(\$40,265)	(\$25,524)	(\$19,424)	(\$26,256)	(\$26,895)
Cash Used for Provincial Transfers	(\$780,000)	(\$745,000)	(\$730,000)	(\$680,000)	(\$630,000)
Decrease/Increase in Cash During the Year	\$5,549	(\$30,554)	\$23,592	(\$8,934)	\$3,776

### Financial Position

Current Assets	\$275,774	\$230,720	\$256,209	\$239,516	\$229,541
Current Liabilities	\$210,029	\$179,175	\$203,647	\$160,727	\$132,159
Working Capital	\$65,745	\$51,545	\$52,562	\$78,789	\$97,382
Fixed Assets	\$148,183	\$132,958	\$132,037	\$134,780	\$129,470
Total Assets	\$423,957	\$363,678	\$388,246	\$374,296	\$359,011

### Financial Ratios

Profit Margin	34.80%	35.03%	35.11%	35.33%	35.61%
Return on Shareholders' Equity	406.31%	403.63%	352.13%	302.76%	285.63%
Current Ratio	1.31	1.29	1.26	1.49	1.74

### Statistics

Inventory Turnover	5.38	5.53	5.02	5.07	4.92
Number of Permanent Employees	3,014	2,934	2,828	2,803	2,824
Sales per Employee	\$771,623	\$724,866	\$706,079	\$673,273	\$633,656
Number of Stores	600	596	595	596	597
Number of Regular Products Listed	2,593	2,442	2,349	2,377	2,389



1994	1993	1992	1991	1990	1989
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### Statement of Earnings

\$1,764,731	\$1,786,479	\$1,833,386	\$1,936,710	\$2,006,975	\$1,930,319
\$832,106	\$841,060	\$851,539	\$967,221	\$1,012,938	\$994,294
\$932,625	\$945,419	\$981,847	\$969,489	\$994,037	\$936,025
52.85%	52.92%	53.55%	50.06%	49.53%	48.49%
\$333,716	\$332,953	\$332,439	\$326,682	\$311,707	\$275,580
\$598,909	\$612,466	\$652,458	\$652,669	\$692,083	\$664,124

### Statement of Cash Flow

\$619,979	\$635,298	\$675,162	\$672,558	\$707,223	\$675,892
(\$15,824)	(\$8,694)	\$6,162	\$48,775	(\$29,481)	\$29,933
(\$14,753)	(\$21,075)	(\$25,754)	(\$29,751)	(\$23,784)	(\$15,447)
(\$585,000)	(\$615,000)	(\$675,000)	(\$650,000)	(\$640,000)	(\$645,000)
\$4,402	(\$9,471)	(\$19,430)	\$41,582	\$13,958	\$45,378

### Financial Position

\$201,204	\$192,955	\$207,155	\$231,212	\$219,752	\$179,400
\$92,813	\$104,789	\$118,212	\$116,677	\$98,024	\$101,111
\$108,391	\$88,166	\$88,943	\$114,535	\$121,728	\$78,289
\$120,474	\$126,790	\$130,564	\$131,161	\$122,322	\$118,008
\$321,678	\$319,745	\$337,719	\$362,373	\$342,074	\$297,408

### Financial Ratios

34.24%	34.36%	36.04%	33.96%	34.70%	34.54%
269.90%	281.94%	280.50%	266.53%	314.34%	n/a
2.17	1.84	1.75	1.98	2.24	1.77

### Statistics

5.02	4.70	4.72	4.79	4.88	5.56
2,743	3,100	3,233	3,305	3,484	3,396
\$637,678	\$574,998	\$560,185	\$581,445	\$572,401	\$566,113
600	611	618	621	623	626
2,336	2,302	2,390	2,570	2,825	2,974



The Source for Entertaining Ideas

## PRODUCTS AND PRICING

11,279	Number of products available through LCBO stores, catalogues and its private ordering service in fiscal 1998-99
3,235	Number of new Vintages products offered in stores and through the <i>Classics Catalogue</i> in fiscal 1998-99
63	Number of countries from which the LCBO buys its products
931	Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program
957	Number of products that carried a "value-add" bonus item in 1998-99
82	Percentage of domestic spirit prices made up of federal and provincial taxes, levies and mark-ups
64	Percentage of domestic wine prices made up of federal and provincial taxes, levies and mark-ups
65	Percentage of domestic beer prices made up of federal and provincial taxes, levies and mark-ups

## OUR EMPLOYEES

3,014	Number of permanent full-time LCBO employees
83	Number of LCBO product consultants available to offer expert advice to customers
4,576	Number of LCBO Retail staff who have passed the highest level of our three-level Product Knowledge Course to date
4,482	Number of LCBO Retail staff who received training in calendar 1998 to help prevent service to minors or people who appear intoxicated
2	Percentage of customers in a 1999 survey who said they were dissatisfied with service in LCBO stores.
99,000	Number of calls handled by LCBO Infoline officers in calendar 1998

## OUR FUNDRAISING

\$200,800	Amount raised by LCBO employees for the United Way in 1998
1	Ranking of LCBO among government fundraisers for the United Way (per capita)
\$260,947	Amount raised for charity through donation boxes in LCBO in calendar 1999

## SOCIAL RESPONSIBILITY

834,634	Number of customers challenged for proof of age or sobriety by LCBO staff in fiscal 1998-99
95,032	Number refused service by LCBO employees in fiscal 1998-99
3,117	Number of BYID tamper-resistant identification cards issued by the LCBO during fiscal 1998-99

## QUALITY ASSURANCE

264,718	Number of product tests carried out in fiscal 1998-99 by LCBO's Quality Assurance Laboratory
431	Number of products rejected by Quality Assurance in fiscal 1998-99 for health concerns, consumer safety issues and other quality control problems
919	Number of seized products tested for enforcement purposes by Quality Assurance in fiscal 1998-99
0	Number of product recalls issued by Quality Assurance in fiscal 1998-99



For more information about LCBO products and services,  
visit us on the Internet at:

[www.lcbo.com](http://www.lcbo.com) and [www.vintages.com](http://www.vintages.com)

WINE SPIRITS BEER



CA20N  
LC  
- R26

The SOURCE  
for ENTERTAINING  
IDEAS





# THE ANNUAL REPORT

Under the *Liquor Control Act*, we're required to prepare an annual report to the Minister of Consumer and Commercial Relations. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace. We've tried to make the report easy to use and understand by using plain language and including a glossary of LCBO terms.

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## LCBO BOARD MEMBERS DURING FISCAL 1999-2000

- Andrew S. Brandt, *Chair and Chief  
Executive Officer*
- Chantal Haas, *Vice Chair; Member; Audit  
and Governance Review Committee*
- Dick Dolphin, *Member; Chair; Audit and  
Governance Review Committee*
- John C. Hopper, *Member*
- Merle A. Jacobs, *Member*
- John S. Lacey, *Member; Member; Audit and  
Governance Review Committee*
- Richard Ling, *Member*
- Larry C. Gee, *Executive Vice President*

## LETTER OF TRANSMITTAL

The Hon. Robert W. Runciman  
Minister of Consumer and  
Commercial Relations

Dear Minister,

I have the honour to present  
you with the 1999-2000 Annual  
Report of the Liquor Control Board  
of Ontario.

Respectfully submitted,



Andrew S. Brandt  
*Chair and CEO*

The LCBO wishes to thank the Office of the Provincial Auditor and the Members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Economic Development.  
French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 1999-2000.





# LCBO

The Source for Entertaining Ideas

October, 2000

Dear LCBO Shareholder:

Entitled *The Source for Entertaining Ideas*, the 1999-2000 Annual Report describes how the LCBO transferred a record \$800 million dividend to the province. That's an increase of \$20 million over last year's record; \$55 million more than the year before that; and \$215 million more than in 1993-94. It marks the second straight year that the LCBO's total transfer - its dividend and provincial sales tax combined - topped \$1 billion.

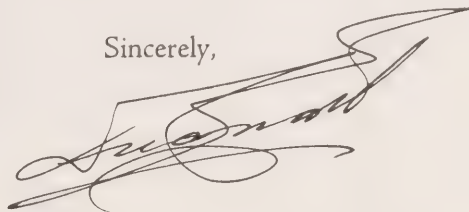
Knowledgeable and helpful staff, store upgrades, in-store promotions and other customer service enhancements, growing customer appreciation of premium products, an improving economy and excellent support from our suppliers were key factors behind this success.

We continued to outperform comparable provincial liquor jurisdictions in both volume and revenue growth. We also outperformed Ontario's retail sector as a whole.

This year's Annual Report will help you evaluate our performance in the context of today's beverage alcohol marketplace, and show how far the LCBO has come in its drive to become Ontario's *Source for Entertaining Ideas*. We also highlight the many ways in which we help promote responsible drinking, including innovative advertising, strong strategic partnerships and our Challenge and Refusal program. In fiscal 1999-2000, our employees challenged some 913,000 would-be customers who appeared intoxicated or could not provide valid ID and refused service to more than 82,000.

When you read this report - or visit one of our stores - you'll see that we continue to improve our services and performance. Recent LCBO research shows this improvement has not gone unnoticed by our customers. They are generally more satisfied than ever with the products and services the LCBO provides. In fact, only one per cent said they were dissatisfied with service in our stores. With the government's support, we plan to continue that improvement next year and beyond. We expect to transfer a dividend of \$850 million in fiscal 2000-01, which would mark a sixth straight record year, and place us well ahead of the financial targets established for the first three years of our five-year strategic plan.

Sincerely,



Andrew S. Brandt  
Chair and Chief Executive Officer

Andrew S. Brandt  
Chair & Chief  
Executive Officer

55 Lakeshore Blvd. East  
Toronto, Ontario  
M5E 1A4

Tel.: 416-864-2519  
Fax: 416-864-2476





# MESSAGE

## FROM THE MINISTER

I am pleased to provide you with the LCBO 1999-2000 Annual Report.

As the Minister responsible for the LCBO, it is my commitment to you to ensure that the LCBO continues to serve you well. And I believe it served consumers and taxpayers very well indeed in fiscal 1999-2000, as demonstrated in this report.



LCBO employees, management and Board Members have all worked hard to deliver better customer service and more efficient operations. New training programs have helped frontline employees improve their product knowledge and customer service skills. Stores continue to be opened, renovated and relocated to provide consumers with accessible and appealing places to shop. Product selection and services have been expanded so customers can find the right product for every occasion at competitive prices.

I'm particularly pleased that the LCBO has also promoted responsible drinking through in-store messaging, external advertising and partnerships with MADD Canada and other groups. Last year employees challenged more than 910,000 customers, and refused service to more than 82,000 who could not provide valid proof of age, or appeared intoxicated. This is a fine example of the LCBO's commitment to local communities.

A recent survey shows that, as a result of improvements made over the past fiscal year, customers are more satisfied than ever with the LCBO, and the products and services its employees provide. In fact, only one per cent were dissatisfied.

The LCBO produced an \$800 million dividend for the provincial Treasury in 1999-2000, its fifth record dividend in a row. Combined with the \$239 million in Provincial Sales Tax that the LCBO collected, more than \$1 billion was transferred from the LCBO to the Treasury last year, to help pay for roads, schools, hospitals and other important social and infrastructure projects.

Our government remains committed to providing excellent public services and value for the taxpayers of Ontario. Since 1995, we have worked hard to improve the quality and efficiency of all government operations and the results are showing.

I believe today's LCBO is a leading example of an efficient and effective government operational enterprise, and my staff and I will do everything we can to ensure it continues to improve in all facets of its business.

Sincerely,

A handwritten signature in dark ink, appearing to read 'R. W. Runciman'.

Robert W. Runciman

*MPP, Leeds-Grenville*

*Minister of Consumer and Commercial Relations*

*September, 2000*



# THE LCBO AT A GLANCE

THE LIQUOR CONTROL BOARD OF ONTARIO REGULATES THE PRODUCTION, IMPORTATION, DISTRIBUTION AND SALE OF ALCOHOLIC BEVERAGES IN ONTARIO.



*The LCBO operates 602 retail stores across Ontario, many with Vintages sections offering consumers a wide selection of fine wines, premium spirits and specialty beer.*

The LCBO is the largest single retailer of beverage alcohol in the world, buying wine, spirits and beer from more than 60 countries for Ontario consumers and licensees.

To provide this service, the LCBO operates five regional warehouses that supply 602 stores across Ontario. Through this integrated distribution and retailing network, some 7,000 quality products are available to consumers, including wine, beer, spirits, coolers and accessories.

The LCBO operates six *Vintages* stores, which offer consumers a wide selection of fine wines, premium spirits and specialty beer. *Vintages* products are also available in eight *Vintages* boutiques and over 135 sections in regular LCBO stores. They can also be ordered through any LCBO outlet. An additional 500 premium products can be ordered from each edition of the *Vintages Classics Catalogue*, which is published three times a year.

Customers can also obtain many other products not regularly listed in Ontario through the LCBO Private Stock ordering program.

In partnership with the LCBO, established retailers operate 107 agency stores in communities without large enough population bases to support regular LCBO stores.

The LCBO also regulates the sale of products through 427 Brewers Retail stores, 37 on-site brewery stores, 349 winery stores, three distillery stores, 11 land border-point duty-free stores, and duty-free operations at Pearson International Airport and Ottawa International Airport.

In the interests of consumer protection, the LCBO conducted more than 298,000 tests on 12,600 different alcoholic beverages in fiscal 1999-2000. This Quality Assurance testing helps ensure that all products sold by the LCBO and Brewers Retail stores comply with the federal *Food and Drugs Act*, as well as the LCBO's high standards for quality and taste.

*For further information about LCBO products and services, call the LCBO toll-free Infoline at 1-800-ONT-LCBO (668-5226). In Metropolitan Toronto, call (416) 365-5900 or visit the LCBO's two Internet sites: [www.lcbo.com](http://www.lcbo.com) (our corporate home page) and [www.vintages.com](http://www.vintages.com) (the Vintages home page).*

# CORPORATE GOVERNANCE

THE MISSION OF THE LIQUOR CONTROL BOARD OF ONTARIO (LCBO) IS TO BE A CUSTOMER-INTENSE, PERFORMANCE-DRIVEN AND PROFITABLE RETAILER OF BEVERAGE ALCOHOL, SUPPORTING THE ENTERTAINING AND RESPONSIBLE USE OF OUR PRODUCTS THROUGH ENTHUSIASTIC, COURTEOUS AND KNOWLEDGEABLE STAFF.

Our customers are the people who buy our products and services. Our stakeholders include the people of Ontario, their elected officials, our employees, our trade partners, and groups that share our concern for public safety. To serve their interests, we:

- *deliver quality products and services at competitive prices*
- *distribute our products and services through a variety of retail formats and other sales channels, such as catalogues*
- *promote the responsible use of alcohol*
- *implement policies aimed at ensuring our workplaces are safe and free of harassment or discrimination*
- *control the importation, transportation, warehousing and sale of liquor outside of licensed premises, together with quality assurance and pricing, in a fair and impartial manner. (The authorization now given by the LCBO for Ontario winery retail stores, Beer Stores and liquor delivery is expected to be transferred to the Alcohol and Gaming Commission of Ontario.)*

To fulfill our responsibilities to the government and people of Ontario, we:

- *develop and implement programs and services aimed at deterring the sale of beverage alcohol to persons who cannot provide valid proof of age, who appear intoxicated, or who are believed to be buying for either of these parties*
- *maximize dividends to the Government of Ontario*
- *enhance the LCBO's value to the Government of Ontario*
- *manage the LCBO's business risks.*

## WHAT IS CORPORATE GOVERNANCE?

Corporate governance means the processes and procedures a corporation uses to manage its business and affairs to enhance shareholder value. It includes ensuring the financial viability of the business, and the corporation's positive relationship and dealings with stakeholders.

Since 1995, the Toronto and Montreal Stock Exchanges have required listed companies to disclose their corporate governance practices. As an operational enterprise of the provincial government, we're not subject to these policies. However, we believe that effective corporate governance and accountability are essential to fulfilling our mandate, and we've included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

## THE BOARD

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- *ensuring that the LCBO provides high quality service to the public*
- *developing and approving the strategic plan and monitoring management's success in meeting its business plans*
- *approving annual financial plans*
- *ensuring that the organization remains financially sound*
- *assessing and managing business risks*



- *submitting an annual financial plan to the Minister of Consumer and Commercial Relations*
- *ensuring the organization has communications programs to inform stakeholders of significant business developments*
- *ensuring that the LCBO performs its regulatory role in a fair and impartial manner.*

## APPOINTMENT OF BOARD MEMBERS

Members of the Board are appointed by the Lieutenant-Governor, through Orders-in-Council, on the recommendation of the Premier and Minister of Consumer and Commercial Relations. Members are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes information about its business, operations and current strategies and issues, and visits to LCBO facilities. New Members also receive written materials and meet with senior management.

## RESPONSIBILITIES OF BOARD MEMBERS

Each Board Member has individual responsibilities for corporate governance, including:

- *acting honestly and in good faith in making decisions with a view to the best interests of the LCBO and all its stakeholders*
- *overseeing the management of the business and affairs of the LCBO*
- *avoiding conflicts of interest. Board Members may not enter into arrangements with the LCBO for personal gain*
- *having adequate knowledge of the LCBO's business, how it is organized, and how it functions*
- *attending Board meetings and seeking professional advice where necessary*
- *exercising judgment independent of management*
- *providing guidance on policy development.*

## STRATEGIC PLANNING PROCESS

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with an annual strategic planning conference whose purpose is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board approves the corporate strategies and reviews the objectives developed by each division to achieve them. Performance appraisals are tied to corporate and departmental business plans: every employee up to the vice president level is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see *Beyond the Numbers 1999-2000: Management's discussion and analysis of operations.*

## AUDIT AND GOVERNANCE REVIEW COMMITTEE

The Audit and Governance Review Committee is composed of three Board Members elected annually by the Board. The Committee ensures the reliability and accuracy of the LCBO's financial statements, helps coordinate and improve its internal control functions, reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles. The Committee:

- *monitors the Board's activities and operations*
- *reviews the LCBO's policy and procedures manuals to ensure that they describe adequate and commercially reasonable procedures and activities and set out appropriate control and management processes*
- *reviews the LCBO's strategic planning process and the appointment, training and monitoring of the performance of senior management*
- *reviews the scope of the responsibilities of the LCBO's Chair and CEO and the Members of the Board, and the limits of senior management responsibility, and makes recommendations to the Members of the Board accordingly*



- *advises and counsels the LCBO General Audit Department*
- *in conjunction with the LCBO General Audit Department, reviews the LCBO's internal control system, internal compliance audits and the annual budget, and makes recommendations as required*
- *identifies the principal risks facing the business and reviews systems to manage these risks*
- *acts as a liaison among the Board, the LCBO's General Audit Department and the Provincial Auditor*
- *oversees the production of the Annual Report.*

The Committee meets at least twice a year.

## ETHICS AND BUSINESS CONDUCT

The Board is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices, in March 1998, the Board approved a new policy for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April 1998, the Board approved a new Code of Business Conduct, with policies for conflict of interest; confidentiality; the outside activities of employees, officers and Members of the Board; gifts and entertainment; and human rights.

## HEALTH AND SAFETY

The Board approves an annual Health and Safety policy, and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues. Reports are provided to the Board monthly.

## STORE PLANNING AND DEVELOPMENT COMMITTEE

This is a staff committee which reports to the Board. It reviews all real estate and leasing decisions and makes recommendations to the Board. The Committee meets monthly.

## LISTINGS COMMITTEE

This is a staff committee which reports to the Board. It reviews all recommended General List applications to list beverage alcohol in LCBO stores, and makes recommendations to the Board about these applications and about the de-listing of certain products. The Committee normally meets quarterly.

## LISTINGS APPEALS COMMITTEE

This is a staff committee which reports to the Board. It reviews all appeals of decisions denying listing applications and de-listing beverage alcohol products and makes recommendations to the Board. The Committee meets quarterly.

## GOVERNANCE OF THE LCBO DIFFERS FROM PRIVATE-SECTOR CORPORATIONS

In public companies, boards of directors usually have a number of key responsibilities which they perform on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, an operational enterprise of the Ontario government, several of these functions are performed directly by government. This includes appointment of the Chair and CEO. In making major policy decisions, the Board often invites input from the provincial government and other stakeholders, and takes into account government policy objectives.

# GLOSSARY OF LCBO TERMS

**Agency stores:** operated by established retailers in communities without the population base to support regular LCBO or Beer Stores. At the end of fiscal 1999-2000, there were 107 agency stores, most in Northern Ontario.

**AIR MILES Rewards:** a loyalty program operated in Canada by Loyalty Management Group Canada Inc. that allows participating LCBO customers to earn travel and other rewards – such as movie passes, car rentals or long distance calls – by making purchases from the LCBO and other participating sponsors. AIR MILES is a trademark of AIR MILES International Holdings N.V., used under licence by Loyalty Management Group Canada Inc.

**Alcohol and Gaming Commission of Ontario (AGCO):** a regulatory body of the Ontario government responsible for the administration of the *Gaming Control Act*, the *Liquor Licence Act* and the *Wine Content Act*. Among other things, it regulates the sale and service of liquor in licensed premises and at Special Occasion Permit events.

**Brewers Retail Inc. (BRI):** a private company owned by three Ontario brewers (Labatt, Molson and Sleeman), authorized by the LCBO to sell domestic and foreign beer and related merchandise through 427 Beer Stores located in 227 communities across Ontario.

**Brewery store (on-site):** a retail store authorized by the LCBO and operated by a brewer at its manufacturing site. There are 37 on-site brewery stores.

**BYID (Bring Your Identification) card:** a tamper-resistant photo ID card issued by the LCBO, and accepted as valid proof of age in all LCBO and BRI stores and licensed establishments. Cards can be obtained with proper identification and a \$15 fee. Applications are available at all LCBO stores.

**Challenge and Refusal:** an LCBO social responsibility program in all stores that helps ensure beverage alcohol is not sold to minors, to persons who are intoxicated, or to anyone making purchases on behalf of these two groups.

**Check 25:** the LCBO social responsibility program whereby anyone appearing to be under the age of 25 is routinely asked for identification by retail staff.

**Classics Catalogue:** published three times a year by Vintages, each edition offers hundreds of premium quality spirits, critically acclaimed wines from older vintages and sought-after selections from smaller producers and estates.

**Combination or “combo” stores:** these sell the full range of domestic beer in every size, as well as regular LCBO products. This format originated as a customer service initiative in smaller, usually rural communities where there are no Beer Stores. Regular LCBO stores mainly sell six-packs of selected domestic and imported beer.

**Consignment Warehouse:** this program allows agents/suppliers to bring products not regularly sold at LCBO retail stores, to an LCBO warehouse to be held for sale. Licensed suppliers' agents are responsible for finding buyers for these products; suppliers are not paid until the product is sold.

**CSR:** an LCBO Customer Service Representative, trained to offer helpful, knowledgeable and socially responsible service.

**Depots:** wholesale stores servicing licensees and beverage alcohol trade representatives. The five urban LCBO depot stores are not open to the public.

**Distillery store (on-site):** a retail store authorized by the LCBO and operated by a distiller at its manufacturing site. There are three on-site distillery stores.

**Duty-free shop:** a retail shop located at an international airport in Ontario, or a bridge, tunnel or land-border exit from Ontario, licensed by the Canada Customs & Revenue Agency to sell items free of duties and taxes, and authorized by the LCBO to sell beverage alcohol. Duty-free shops are privately operated and regulated, as regards the sale of beverage alcohol, by the LCBO.

**Embassy or Official Government Sales Discount:** a discount on beverage alcohol provided by the LCBO to foreign embassies, consulates, trade missions and other diplomatically staffed foreign institutions recognized as such by Foreign Affairs and International Trade Canada. They may purchase imported beverage alcohol products through the LCBO's Private Ordering Department at a discount for official use within the institutions, comparable to discounts that foreign governments provide to Canadian diplomatic institutions abroad.

**FOOD & DRINK:** the LCBO's free magazine, published six times a year to help customers entertain responsibly and with ease.

**Fortified wine:** wine whose alcohol level has been “fortified” (up to 20 per cent) by the addition of spirit (e.g., Port, Sherry and Madeira).

**General List:** a list of products regularly available in LCBO stores.

**Icewine:** a dessert wine made from grapes – most often Vidal or Riesling – left on the vine until they freeze solid. Once the grapes are picked, ice crystals are removed, leaving behind an intensely sweet, concentrated juice often called “liquid gold.” Ontario Icewines are widely considered the best in the world, winning award after award in open competitions.

**IMAGE program:** provides LCBO suppliers the opportunity to purchase display space to promote their products in selected stores during 13 four-week periods.

**LCBO Private Stock Program:** enables LCBO customers to obtain beverage alcohol products that may not be listed for sale in LCBO retail stores. Individuals can order case lots from anywhere in the world as long as the supplier will ship them to the LCBO.

**Licensee:** the holder of a licence to sell beverage alcohol to the public at licensed premises, issued by the Alcohol and Gaming Commission of Ontario under the *Liquor Licence Act*.



**Limited Time Offers (LTOs):** month-long price discounts of up to 20 per cent on selected beverage alcohol products.

**Liquor Control Act:** provincial legislation passed in 1927 that gives the LCBO broad powers to control the transportation, sale and delivery of beverage alcohol in Ontario.

**Microbrewery:** a brewery that produces less than 100,000 hectolitres of beer annually.

**POS:** the point-of-sale system used in LCBO stores. It helps speed up every sales transaction in LCBO stores; transmits vital information on inventory movement to Head Office; and facilitates debit/credit authorization and other interfaces with financial institutions. New full-screen displays also help promote customer services, such as the AIR MILES Rewards program, and transmit social responsibility messages.

**Product Consultants:** LCBO employees whose expert knowledge of wines, spirits and beers helps them inform customers and colleagues about every aspect of beverage alcohol. As of March 31, 2000, there were 115 Product Consultants in our stores.

#### **Product Knowledge**

**Correspondence Course:** a three-level employee training program that is mandatory for all LCBO retail staff. The program is also available to the public at a cost of \$80. A CD-ROM version is now in development.

**Quality Assurance:** the department of the LCBO responsible for testing products for safety and analytical purposes. It also conducts chemical tests and taste assessments for outside agencies, such as other beverage alcohol regulators or retailers or the Vintners Quality Alliance [see VQA] and assists in investigations of the sale of illegal alcohol.

**Refreshment flavoured wine beverages:** Varietal wines mixed with essences of fruit and/or lightly carbonated.

**Single Malt:** a type of Scotch whisky made in a single distillery, in a pot still, with malted barley as the main ingredient.

#### **SMAART (Strategies for Managing Age and Alcohol-Related Troubles):**

LCBO's comprehensive video-based training program designed to educate staff about responsible service and related judgment calls, alcohol issues and how to handle problem customers. All employees who serve the public are required to take SMAART training.

**Source for Entertaining Ideas:** the brand vision of the LCBO, designed to position the organization in the eyes of customers – and employees – as the place where Ontarians can find a full range of products and services to help them entertain easily and responsibly.

**Special Occasion Permit:** a one-time permit – issued under the *Liquor Licence Act* by the Alcohol and Gaming Commission of Ontario and available in selected LCBO stores – that allows holders to serve or sell beverage alcohol at a specific location which is not a licensed establishment or a private place or residence.

**Spirit cooler:** a mixture of spirits and soft drinks or fruit juices. Wine- and beer-based coolers are also sold in LCBO stores.

**Strategic Scorecard:** A strategic management tool the LCBO uses to gauge its progress against targets in key areas such as customer satisfaction, social responsibility and financial performance.

**Supply Chain Management:** this term applies to all components of the product ordering and delivery system from the time orders are placed with suppliers to when the product arrives on store shelves.

**That's the Spirit:** a training program created and implemented jointly by the LCBO and Ontario's distillers to help make retail employees more knowledgeable about spirits, and more comfortable advising customers on ways to entertain with them.

**U-Brew/U-Vint/U-Ferment:** a privately operated service outlet that provides customers with ingredients, equipment and expertise to make their own beer or wine at the shop. Under legislation proclaimed in March 2000, these outlets are licensed and regulated by the AGCO.

**Value-adds:** bonus items attached by suppliers to a liquor product sold in LCBO stores.

**Varietals:** wines made from particular grape varieties, as opposed to blends. Well-known red varietals include Cabernet Sauvignon and Merlot; popular white varietals include Chardonnay, Sauvignon Blanc and Riesling.

**Vintages:** the fine wine, spirits and specialty beer division of the LCBO. It offers an ever-changing assortment of premium products of unusual nature, limited production and/or niche market interest.

**VQA:** Vintners Quality Alliance (VQA) designation awarded to Ontario and B.C. wines of superior quality that meet strict wine-making and taste standards, modeled on "Appellation of Origin" systems used in other wine producing countries. VQA legislation, proclaimed in June 2000, has replaced the voluntary system in place since 1988.

**VQA Ontario:** a non-profit corporation designated by the provincial government under the VQA legislation to control the use in Ontario of specified terms, descriptions and designations of wine, and to set quality standards for wines to which these terms, descriptions and designations are applied.

**Wholesale channel:** refers to the LCBO's sale and distribution of liquor to liquor retailers such as licensees, BRI, agency stores and duty-free stores.

**Winery retail store:** a retail store operated by an Ontario winery under an authorization from the LCBO. Due to international trade agreements, there are two types of winery retail stores: "on-site" stores at the winery that may sell only wine made by the winery at that location, and "off-site" stores that may sell only wine made by the winery. Due to international trade agreements, the number of "off-site" stores is capped. There are a total of 349 winery retail stores in Ontario.

**WOW – Uncork the Knowledge:** a training program designed by the LCBO and trade partners to increase employees' knowledge of Wonderful Ontario Wines (WOW). The program was extremely well received by employees, and is being followed up with WOW 2000: From Vines to Wines, which will afford every LCBO employee the opportunity to visit Ontario wineries, to see first hand how domestic wines are made.



# CHAIR'S MESSAGE



Photo: Dan Lim

*Chair and CEO Andrew S. Brandt commends the effort and commitment of all LCBO employees.*

IN LAST YEAR'S ANNUAL REPORT, I LED OFF MY REMARKS BY SAYING THE FISCAL YEAR IN QUESTION HAD BEEN OUR BEST EVER BY ALMOST ANY MEASURE. AT THE RISK OF REPEATING MYSELF, I AM PLEASED TO BEGIN IN MUCH THE SAME WAY THIS YEAR.

Fiscal 1999-2000 was another great success for the LCBO – our fifth straight record year. We recorded the highest net sales in our history: more than \$2.5 billion, a growth of 8.9 per cent over the previous year. We also recorded the highest dividend transfer in our history: \$800 million to the Government of Ontario.

That is \$20 million more than last year; \$55 million more than the year before that; and \$215 million more than just six years ago.

We also collected \$239 million in Provincial Sales Tax in fiscal 1999-2000, which means the LCBO broke the billion-dollar mark for the second year in a row, giving our owners – the people of Ontario – a total of \$1,039,071,000.

## HOW DID WE ACHIEVE THIS SUCCESS?

To be sure, we operated in a much improved economy than we did just a few years ago. Ontario today boasts lower unemployment, higher consumer confidence and greater disposable income per capita than it has in several years.

The millennium celebrations also contributed to our success. In the Product Trends section that begins on page 26, our category directors report without exception a trend towards premium products in fiscal 1999-2000. Whether they bought red wine or white, Champagne or Cognac, spirits, liqueurs or beer, many LCBO customers spent more to treat themselves to something special. With premium products, of course, come higher profits.

But that alone doesn't explain our growth rate, which exceeded Ontario's retail sector as a whole (8.9 per cent vs. 7.9). As I suggested last year, much of our success can be attributed to the strategic direction we embarked upon in 1997, and to the employees who have turned that strategic vision into reality.

We have some 6,200 full- and part-time employees at the LCBO, each of whom worked hard in fiscal 1999-2000 to attain the outstanding results described in this report. Whether in our retail stores or behind the scenes, they strove to improve their product knowledge and customer service skills, increase productivity and contain the costs of doing business. I commend their efforts and their commitment to the LCBO's core values of customer service, social responsibility, excellence and integrity.

The strategic vision to which I alluded is described in our mission statement, which was updated this fiscal year as follows:

*"The LCBO will be a customer-intense, performance-driven and profitable retailer of beverage alcohol, supporting the entertaining and responsible use of our products through enthusiastic, courteous and knowledgeable staff."*

Our objectives as laid out in our five-year strategic plan are: to increase customer satisfaction; to promote the responsible use of beverage alcohol; and to maximize returns to Ontario taxpayers by generating a total of \$4.2 billion in dividends to the Ontario government over the next five years.

We measure our progress by asking customers. For example, in February 1999, we conducted a poll of more than 1,000 adults across the province, and developed benchmarks that go beyond financial indicators, measuring our performance in more than 40 key areas like customer satisfaction and social responsibility. These benchmarks were noted in a "Strategic Scorecard." Ongoing research tracks percentage changes in each area so we can see if we're meeting our objectives.

The research shows that staff are the most important determinant of customer satisfaction at the LCBO. I am pleased to report that in the latest February 2000 survey, in which 2,200 people were surveyed, employees rated higher in key aspects of customer service than they had the year before. For example, 82 per cent of respondents said staff were helpful, compared to 79 per cent in 1999; 80 per cent said staff were friendly (77 per cent in 1999); and 74 per cent said staff were available when needed (70 per cent in 1999). Areas that still need work, if we are to achieve our vision of being Ontario's "Source for Entertaining Ideas," are our employees' ability to recommend gifts (56 per cent satisfaction) and match beverage alcohol with food (41 per cent satisfaction).

When it came to our stores, again ratings had improved. Overall customers found our stores more appealing, bright and conveniently located than they had the year before. In the area of product selection, 71 per cent of customers were satisfied with our selection – the same as the year before.

In the area of social responsibility, 70 per cent approved of our overall performance in promoting the responsible use of beverage alcohol, compared to 65 per cent the year before; 72 per cent approved of our control of sales to those appearing intoxicated and 79 per cent approved of our control of sales to minors.

Based on these results, I think it is fair to say that LCBO customers are more satisfied than ever with our staff, our stores, our selection and our commitment to social responsibility. In fact, only one per cent said they were dissatisfied, down from two per cent the year before. And we'll continue to earn higher ratings in the year ahead through increased staff training, further improvements to our store network, and leadership in the promotion of social responsibility.

While customer research helps us define and measure our goals, another research project proved critically important this fiscal year. I speak of the Employee Attitude Survey conducted in June 1999, the first such survey done at LCBO in more than a decade.

All employees were given the opportunity to respond in complete confidence to a detailed questionnaire about work at the LCBO. Nearly 70 per cent responded, and what they told us was extremely valuable.

The vast majority of respondents told us they took great pride in the LCBO's commitment to social responsibility and customer service. They also said they want us to strive for excellence and integrity in everything we do. This input helped us define the core values formally adopted by the LCBO to guide us in every aspect of our business.

In their survey responses, and in subsequent focus groups, employees also told us about improvements they'd like to see in specific areas of the organization, especially in the way we reward good performance and how we communicate with employees. Their concerns have been discussed at a number of senior management planning sessions and we've already begun rolling out new programs to address the issues they raised.



## LOOKING AHEAD

In February 2000, I was reappointed to a fourth three-year term as Chair and CEO of the LCBO. Needless to say, I was extremely pleased. The men and women who work at the LCBO have brought the organization so far along in the 10 years I've been here and I believe even better things lie ahead for the LCBO and its stakeholders in the years to come.

We'll continue to define our progress against the benchmarks in our strategic plan. We have set aggressive goals for the 2000-01 fiscal year - net sales growth of 8.2 per cent, and a dividend of \$850 million - and I believe we can achieve them for the following reasons:

Our employees are committed to improving their product knowledge and customer service skills, and we are committed to providing the training to help them do that.

We continue to improve our stores, as noted on page 34, renovating and relocating them as needed to meet the expectations of increasingly sophisticated consumers.

We are fortunate to have a visionary Senior Management team, backed by a strong Board, whose sound knowledge of business practices helps ensure we maximize our opportunities and minimize our risks. And we have a Minister of Consumer and Commercial Relations, the Hon. Bob Runciman, who has been supportive of our goals and strategic direction and has encouraged us to seek additional ways of further improving the LCBO.

We have created a new Wholesale department to improve service to 16,000 licensees and other wholesale customers.

We have reviewed our supply chain - the way goods move from suppliers to store shelves - and have recommended a number of improvements to make it more efficient, flexible and cost-effective. The recommendations, approved by the government, are designed to improve our ordering and distribution practices; improve customer satisfaction; lower our cost of doing business, while maintaining optimum stock levels in stores; and enhance relations with our trade partners.

We'll continue to challenge anyone who appears to be younger than 25, and will refuse service to those who cannot provide valid photo ID. We'll challenge and refuse to serve anyone who appears to be intoxicated. And we'll challenge those we believe to be making a purchase on behalf of a minor or intoxicated person.

We'll promote the responsible use of alcohol through dramatic television commercials and other media that send the message that "Drinking and driving is no accident. It's a choice. Make the right one."

We'll continue to find ways to increase employee satisfaction, because we believe satisfied employees help create satisfied customers. We have already developed and rolled out a number of programs designed to improve performance management, management effectiveness and management integrity - key areas identified in the 1999 Employee Attitude Survey as needing improvement.

As I said at the outset, we value greatly the contributions our employees have made to our success. One cornerstone of our strategic plan is "to have the right people in the right place with the right attitude and skills." With a new two-year contract recently ratified and new training programs designed to increase employees' product knowledge, this aspect of our plan is well in hand.



Andrew S. Brandt  
*Chair and CEO*

*Toronto, Ontario  
August 2000*



# OUR CORE VALUES

In the fall of 1999, the LCBO formally adopted four “core values” to guide its undertakings. They are:

- CUSTOMER SERVICE
- SOCIAL RESPONSIBILITY
- EXCELLENCE
- INTEGRITY.

Employees themselves helped define these values in the LCBO’s 1999 Employee Attitude Survey. “The vast majority of respondents told us they took great pride in the LCBO’s commitment to social responsibility and customer service,” explains Chair and CEO Andrew S. Brandt. “They also said they want us to strive for excellence and integrity in everything we do.”

Core values are the principles that guide a company through all business cycles, according to Brandt. “They tell people not what we do but who we are.

“We’ve always strived to achieve these values,” he adds. “We’re now inviting stakeholders to measure us on them.”

We believe every LCBO employee does his or her best to bring these core values to life every day. Following are a few brief examples.

## CUSTOMER SERVICE

### *Perfect scores are no mystery*

It’s not easy to get a perfect score when a “mystery shopper” visits your store.

But 54 LCBO stores did precisely that between December 1, when the program debuted, and our fiscal year-end at March 31, 2000.

These three did it twice: 164 at Eglinton Avenue and Laird Drive in Toronto; 228 on Ellesmere Road in Scarborough; and 536 on Major Mackenzie Drive in Maple.

“That’s just who my employees are,” says Tony McGrath, Manager of Store 228. “They care, that’s their nature. They’re all trying to develop their careers with the LCBO, taking night courses in merchandising and product knowledge. They’re really into providing good quality customer service.”

As a reward for their outstanding performance, the staff received money to treat themselves to pizza for lunch – and promptly donated it to the Children’s Wish Foundation.



*The employees of Store 228 in Scarborough have already achieved two perfect scores in the LCBO’s mystery shopper program. From left to right are: Customer Service Representative (CSR) George Mertsis; CSR Barry McKay; CSR Jill Hay; Manager Tony McGrath; CSR Cyril Prisciak; and CSR Dennis McCabe.*

The staff recently completed a week-long training course called Compelling Customer Service. “But we got our perfect scores before that, so in my view we’re only going to get better,” says McGrath.

The LCBO launched its mystery shopper program to help measure how well its stores are meeting its standards of customer service.



*An LCBO customer wrote Customer Service Representative Phil Rosato, right, to thank him for refusing to serve her while she was intoxicated. All LCBO retail employees are trained to challenge customers who appear impaired or underage, or are suspected of attempting to buy for either group.*

Trained, certified professionals pose as ordinary customers in LCBO stores and then answer 28 questions about their experience.

The questions cover such topics as:

- *the appearance of the store exterior and front entrance*
- *in-store displays*
- *employees' appearance and attire*
- *their product knowledge and customer service skills.*

Mystery shoppers are asked to test these skills by presenting a scenario to the employee who serves them. For example: I'm having a dinner party and I need to know what wines to serve.

The mystery shoppers also rate their experience at the checkout: whether they were asked for ID (if applicable); whether they were asked if they had an AIR MILES Rewards card; whether their order was priced and packaged correctly; whether they were thanked and invited to return.

Finally, they rate their overall shopping experience as excellent, good, fair or poor, and can include general comments, positive or negative.

"The information generated by the mystery shoppers is confidential," adds District 22 Manager Paul Mancini, "but I do know that the mystery shoppers who visited Store 164 were served by different people each time. To me, that reflects a consistent level of excellence at that store. I'm very proud of the staff there, and at every store that strives to exceed customer expectations."

## SOCIAL RESPONSIBILITY

### *A thankful job*

Tens of thousands of customers are refused service in LCBO stores every year. But how many stop to say thanks?

One woman did after being refused service at Store 584 in Coventry Square, Scarborough.

Helen (not her real name) was a regular customer at the store. "She'd come in regularly for vodka or gin," recalls Customer Service Representative Phil Rosato. "She'd usually be sober, but she had been refused several times in the past."

One Saturday afternoon, she came up to a checkout with a bottle of vodka. Rosato and another colleague on cash felt she was under the influence and refused the sale. But their efforts didn't stop there. When they saw her heading for a car outside the store, they told their manager they wanted to try to talk her out of driving. He gave them the go-ahead and they followed her out to her car.

"We told her she was putting people's lives at risk, including her own, and asked her to leave the car where it was and amazingly enough, she did - for three days," Rosato recalls.



About two weeks later, a handwritten note from Helen arrived. In it, she apologized for her conduct and thanked the employees for refusing to serve her.

"When I think about what could have happened had you not stopped me – well it scares the hell out of me," she wrote. "I am sincerely sorry for putting your jobs in jeopardy and thank you again for caring about the lives of the general public."

Even more amazing to Rosato was Helen's postscript, which read: "I haven't had a drink since that night."

"It's very touching to think we made a difference, maybe helped someone turn things around," he says. "As far as I know she hasn't been back to the store. I hope for her sake it stays that way."

## EXCELLENCE

### *Getting better all the time*

Shortly after the LCBO's new flagship store on Rideau Street in Ottawa opened, Design Co-ordinator Sylvie Rioux dropped in to observe customers in the environment she had helped create.

"I watched them using our Internet terminal to search out product information," she recalls. "I saw them listening to CDs at one of our music stations and browsing at our gift displays. I saw them tasting products downstairs in the Vintages section. And I felt great pride because I knew we hadn't just created a store that was aesthetically pleasing. It was a store designed to further the LCBO strategic plan and, from what I could see, it was working."

Rioux is one of five design co-ordinators who help create new LCBO stores with one ideal in mind: that each should be better than the last. "Not better in an abstract sense," adds Rioux, who was also lead designer on the LCBO's award-winning flagship store in Toronto's Bayview Village Plaza. "But better for the specific market and the community it will serve."

An infusion of capital and availability of good retail space has enabled the LCBO to modernize its store network with unprecedented speed over the last two fiscal years. But the pace of work has not diluted the design team's high standards of quality.

LCBO stores have won more than 30 design awards since 1990, including prestigious Excellence in Retail Awards from the Retail Council of Canada. Equally important is research that confirms customers today find our stores more appealing than ever before.

"I believe we've done so well because of the team approach we take," notes Store Development & Real Estate Director Jackie Bonic.



*Design Co-ordinator Sylvie Rioux, left, reviews floor plans with Jackie Bonic, Director, Store Development & Real Estate.*

"On a macro level, that refers to the partnership between divisions at LCBO," she explains. "Our colleagues in Merchandising, for example, help determine where a new store is needed, and the customer profile it should fit. They also determine the product mix and much of the store merchandise layout, and they do a great job preparing the store displays, graphics and visual merchandising in time for opening day."



Virtually every other division is involved at some point, she adds. "You can't overemphasize the collaborative nature of the process."

Within her department, designers work closely together, and with their colleagues in Construction, share information on what has worked for them and what hasn't, inspiring each other to do better work each time out.



*Customer Service Representative Happi Pollard puts the finishing touches on a gift pack. Many LCBO stores offer a wide range of gifts - and free gift wrap service - as a convenience to busy shoppers.*

As Rioux says, "Just knowing that other design co-ordinators will be coming to the store on opening day makes me push for every detail to be perfect."

Acting Design Manager Kayla Janjic recently watched a video about the opening of the new Ottawa store and says she felt "enormous pride at what we had accomplished."

"When you remember that it all started with a hole in the ground, and you see how every detail has fallen into place, there's a sense of disbelief. Even if you didn't work on that particular project, you know what it took to get there," adds Janjic, the longest serving designer on the team.

"I come into work every day determined to do better than I did the day before," she says. "That has nothing to do with what other people expect of me. It's what we all expect of ourselves."

## INTEGRITY

### *Testing, testing*

Kirby Hom inserts a syringe through the stopper of a small glass vial, withdraws a sample of amber-coloured liquid and injects it through a coil into a programmable oven. The liquid is whisky and it is about to undergo a range of tests that will determine everything from its alcohol "fingerprint" to its country of origin.

Hom is Manager of the LCBO Quality Assurance (QA) laboratory, which tests thousands of products each year to ensure they are safe to drink, authentic and of the highest quality. In fiscal 1999-2000, just under 300,000 tests were performed on 12,600 products.

The lab is equipped with state-of-the-art equipment that can tell a Highland Single Malt Scotch from a Lowland product, based on the atomic weight of oxygen in the water with which it was made.

"Every product has a unique fingerprint based on its chemical makeup," explains QA Director George Soleas. "Bootleggers might be able to fool consumers with imitation products, but they can't fool a gas chromatograph."

The LCBO laboratory performs a number of vital functions for the LCBO and its stakeholders.

Employees test – and taste – all new products to ensure they meet high standards of quality. They test products to ensure they are free of glass particles and other defects; that they are tamper-resistant; and that their labels comply with federal guidelines. And with industry support, Soleas conducts leading-edge research into the health benefits of beverage alcohol products, in collaboration with researchers from the University of Toronto and Mount Sinai Hospital.

The lab also tests samples seized by enforcement agencies to confirm whether products were illegally manufactured or smuggled into Ontario.

Soleas and Hom are frequently called as expert witnesses, either in provincial court (in cases involving smuggled or illegally manufactured alcohol) or at licensing hearings held by the Alcohol and Gaming Commission of Ontario (AGCO), which involve licensees found serving illegal and/or sub-standard alcohol.

They've developed a reputation in legal circles for the integrity of their lab procedures and their testimony.

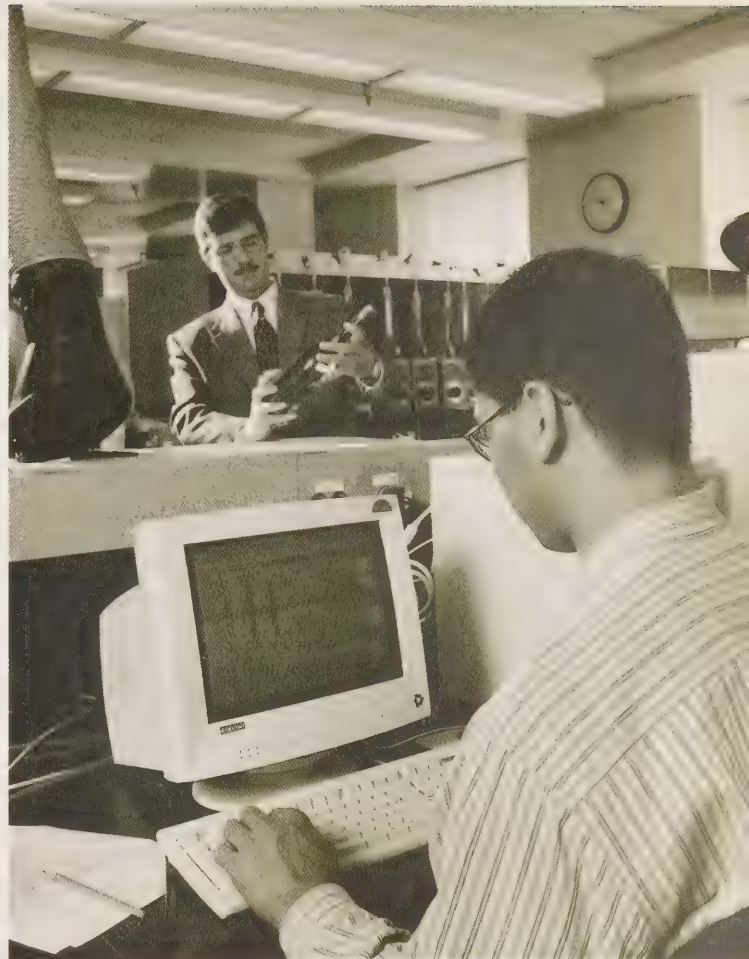
"Their work has been excellent," notes AGCO Counsel Richard Kulis. "I can't think of one instance when a guilty party has been able to refute their findings, even when they call in their own experts."

"I testified in one case recently where the defence called in an expert and he endorsed all of our findings in his summary report," Hom recalls.

But Soleas emphasizes that the fight against illegal alcohol – though dramatic and important – is far from the biggest part of the Quality Assurance department's work.

"We do more than help catch the bad guys. We also enhance the reputation of the honest providers – who outnumber the dishonest ones by far – because a certificate of analysis from our lab is proof of their product's high standards.

"We also provide a measure of peace of mind for our customers," Soleas adds. "They can shop our stores with confidence, knowing we are looking out for their health and safety."



*The LCBO tests thousands of products each year to ensure they are safe to drink, authentic and of the highest quality. Left to right are Quality Assurance Director George Soleas and Laboratory Manager Kirby Hom.*



# BEYOND THE NUMBERS | 1999-2000

*Management's discussion and analysis of operations*

## LCBO SENIOR MANAGEMENT TEAM AS OF MARCH 31, 2000

Larry Gee

*Executive Vice President*

Alex Brownlie

*VP Finance & Administration*

Mark Fitzpatrick

*VP General Counsel & Corporate Secretary*

Larry Flynn

*VP Merchandising*

Murray Kane

*VP Human Resources*

Hugh Kelly

*VP Information Technology*

Bill Kennedy

*Director, Corporate Communications*

Larry Kerr

*Director, Corporate Policy*

Tim Martin

*VP Logistics*

Barry O'Brien

*Director, Corporate Affairs*

Pat Sherwood

*VP Retail*

Shelley Sutton

*Director, Strategic Planning*

THIS SECTION OF THE REPORT EXPLAINS THE FINANCIAL RESULTS OF THE LCBO FOR THE PAST YEAR AND PROVIDES BACKGROUND FOR EVALUATING ITS PERFORMANCE. CANADIAN SECURITIES REGULATIONS REQUIRE PUBLIC COMPANIES TO INCLUDE A DISCUSSION OF OPERATING RESULTS IN THE ANNUAL REPORT, ALONG WITH ANNUAL FINANCIAL STATEMENTS.

As a government operational enterprise, the LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure full disclosure of our results to the widest possible audience.

## HIGHLIGHTS (value in \$000s)

	1998-99	1999-2000
Dividend to government	\$780,000	\$800,000
Net sales and other income	\$2,349,832	\$2,549,458
Per cent increase	8.8	8.5
Operating expenses	\$374,558	\$414,861
Net income	\$809,425	\$845,694
Per cent increase	8.7	4.5



The following table gives a 10-year history of the dividend paid to the province of Ontario.

Dividend	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00
(\$000,000s)	\$650	\$675	\$615	\$585	\$630	\$680	\$730	\$745	\$780	\$800

The dividend hit a low of \$585 million in 1993-94 but has been steadily increasing ever since. This can be attributed to overall improved economic conditions and LCBO retailing and merchandising initiatives such as new store formats and store improvements, staff training, application of technology, and more recently, to the introduction of debit/credit cards, AIR MILES Rewards and year round Sunday openings.

## BILLION DOLLAR PAYOUT

The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to \$239 million in fiscal 1999-2000.

If you combine the dividend and the PST we collected, the LCBO broke the billion-dollar mark for the second year in a row, giving our owners – the government of Ontario – a total of \$1.039 billion. This is almost four per cent more than last year.

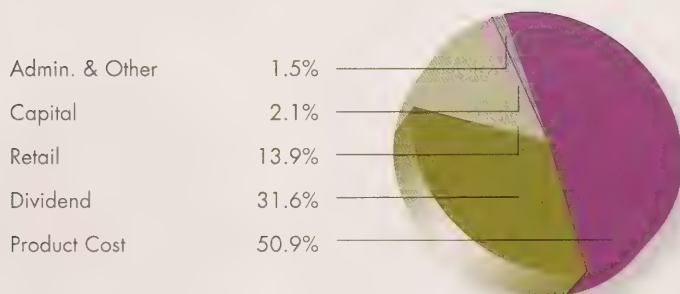
## SALES SET NEW RECORD

Against a background of rising consumer confidence and a buoyant Ontario economy, LCBO net sales rose \$207.9 million last year, or 8.9 per cent, to \$2.534 billion.

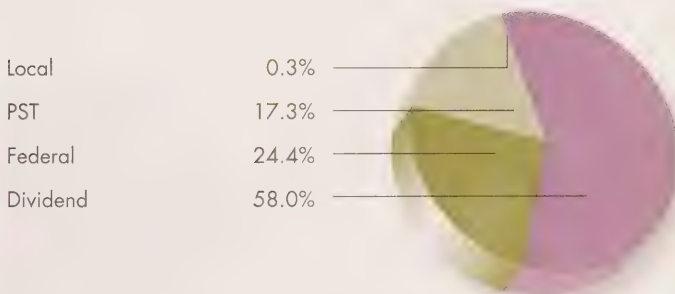
The LCBO outpaced comparable liquor jurisdictions, in B.C. and Quebec, in terms of volume and value growth in sales. Volume sales in B.C. fell this year compared to last, while value sales grew by one per cent. Although Quebec retail sales grew at a slightly faster pace than Ontario (10 per cent vs. 9 per cent), volume sales in Ontario increased 9 per cent compared to 4 per cent in Quebec.

On a broader national level, total retail sector sales grew 6.7 per cent between 1999-2000 and 1998-99. According to Statistics Canada, Ontario outperformed the national average, with retail sales growing by 7.9 per cent. The LCBO produced a sales increase of 8.9 per cent, outperforming total retail sales growth on both a national and a provincial level.

### Breakdown of \$1 in net sales

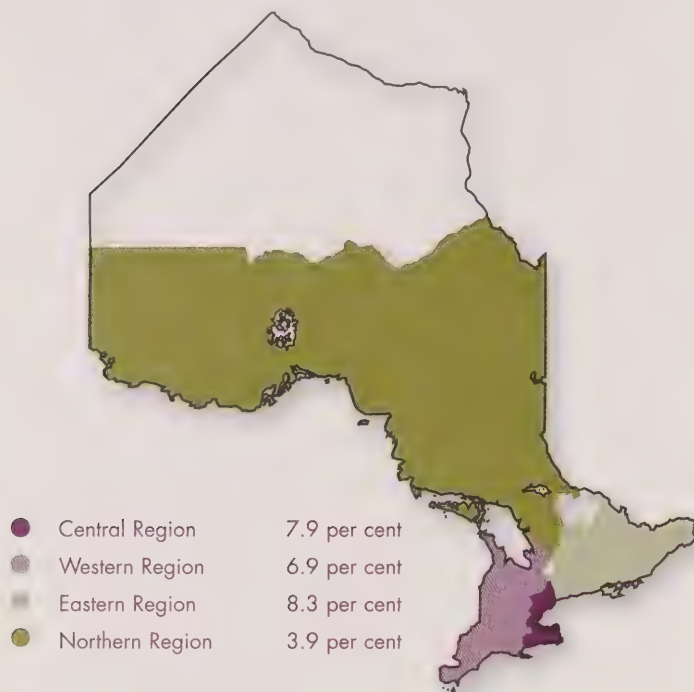


### LCBO Payments to Government



## SALES STRONGEST IN EASTERN, CENTRAL REGIONS

All four LCBO retail regions experienced strong growth in fiscal 1999-2000; as the following map shows, it was strongest in the Eastern and Central regions.



## RETAIL AND WHOLESALE SALES BOTH STRONG

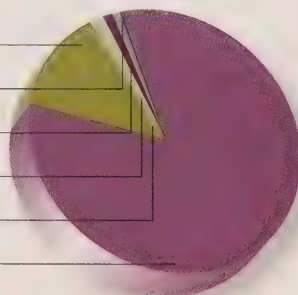
For comparative purposes across sales channels, including retail and wholesale channels which are subject to different discount programs and taxes, gross retail sales (including all taxes) are compared. LCBO retail sales, which we define as sales to home consumers, grew by 8.2 per cent over last year and continue to account for 80.5 per cent of total gross sales.

Gross sales through wholesale channels also grew strongly last year, by almost 12 per cent. More Ontario consumers are dining out, evidenced by the fact that licensee sales increased by 7 per cent, accounting for over 13 per cent of our total sales. Sales to Brewers Retail Incorporated (BRI) have also increased as imported beer becomes more popular and accessible through the Beer Store system. Sales to BRI accounted for almost four per cent of our total sales. Sales to agency stores and duty-free operators accounted for one per cent of total sales each in fiscal 1999-2000; non-store retailing (i.e., catalogue sales) accounted for 0.1 per cent.

In all, wholesale sales account for 19.5 per cent of total LCBO sales, equivalent to last year but up from 17.5 per cent five years ago (see charts below).

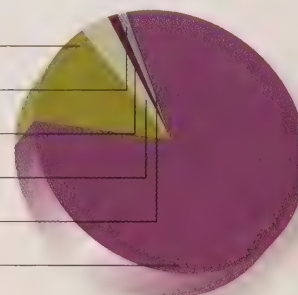
### Breakdown of LCBO sales 1995-96

Licensee Sales	13.4%
Agency Sales	0.9%
Duty-Free	1.2%
Brewers Retail Inc.	1.8%
Other Sales	0.2%
Retail Sales	82.5%



### Breakdown of LCBO sales 1999-2000

Licensee Sales	13.4%
Agency Sales	1.1%
Duty-Free	1.2%
Brewers Retail Inc.	3.7%
Other Sales	0.1%
Retail Sales	80.5%



## LCBO IN THE SHARED MARKETPLACE

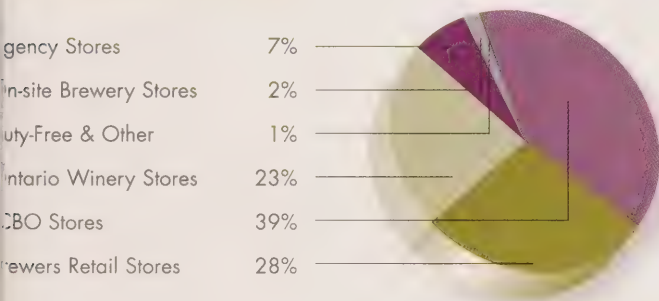
The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including BRI, Ontario winery retail stores, and on-site brewery stores. There are currently 1,540 outlets selling alcohol in Ontario.

Here's what the market looked like at March 31, 2000 (percentages have been rounded):

- 602 LCBO stores (39 per cent of all outlets)
- 427 Brewers Retail stores (28 per cent of all outlets)
- 349 Ontario winery stores (23 per cent of all outlets)
- 107 agency stores (7 per cent of all outlets)\*
- 37 on-site brewery stores (2 per cent of all outlets)
- 11 land border-point duty-free stores (0.7 per cent of all outlets)
- 3 on-site distillery stores (0.2 per cent of all outlets)
- 4 airport duty-free stores (0.1 per cent of all outlets)

\*If you combine the LCBO's 602 stores and Ontario's 107 agency stores, the market share is approximately 46 per cent.

### LCBO percentage of market share by number of outlets)



## CHANGES IN MARKET SHARE

Ontario's total beverage alcohol marketplace amounted to approximately \$6.9 billion in gross sales in fiscal 1999-2000. The LCBO's market share by value has risen from 38.1 per cent in 1995-96 to 42.9 per cent in 1999-2000 (41.3 per cent in 1998-99). Winery retail store sales have grown from 1.9 per cent in 1995-96 to 2.0 per cent in 1999-2000. BRI maintained its market share at 33.6 per cent in 1999-2000, the same as in 1998-99, but down by 1.8 percentage points compared to 1995-96.

By volume, LCBO's market share rose 5.8 percentage points between 1995-96 and 1999-2000, from 20.2 per cent to 26 per cent. Winery retail stores increased their market share from 1.2 per cent to 1.3 per cent over the same time period, while Brewers Retail Inc. fell from 69.4 per cent to 65.8 per cent.

## HOBBY BEER- AND WINE-MAKING

In 1999-2000, the U-Brew and U-Vint market is estimated to have maintained an 11.3 per cent share established in 1998-99, as measured by gross sales.

## ILLEGAL COMPETITION

Since 1993-94, the estimated size of the illegal market in Ontario has been falling steadily. In 1999-2000, illegal alcohol accounted for an estimated \$456 million in sales, or approximately 6.6 per cent of the total Ontario beverage alcohol market. This is down from the estimated \$543 million or 8.2 per cent market share in 1998-99, and the estimated \$736 million or 12.7 per cent market share in 1995-96. This decline is due largely to the efforts of law enforcement agencies to curb this problem, continuing public education about the health risks of consuming illegal alcohol; and new customer-service initiatives – such as Sunday openings, credit/debit card payment options, and upgraded store formats – that have helped draw customers back to legal channels.



# YEAR 2000

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## BACKGROUND

The Year 2000 problem – also known as Y2K – arose from the inability of many computer programs to correctly identify data referring to dates beyond the year 1999. As the year 2000 approached, many experts became concerned that this could create problems on or after January 1, ranging from minor errors to significant systems failures.

## ADDRESSING THE PROBLEM

The LCBO established a Year 2000 Corporate Compliance Office in the summer of 1998 to oversee activities and to manage Y2K issues. A Director of Year 2000 Compliance was appointed. Internal project teams took on the task of anticipating possible problems and creating detailed contingency plans to deal with them. An external company was hired to assist.

The LCBO implemented a communications plan to inform its key business partners and third-party suppliers in some 60 countries around the world about our Year 2000 plans and to monitor and document their Year 2000 readiness.

Hardware and software throughout the LCBO was inventoried and assessed to determine what needed to be remediated (fixed, retired or replaced), with priority given to mission-critical application systems and IT infrastructure.

An independent firm inspected most rewritten code to ensure it performed date/time functions as expected. An extensive integrated testing phase proved in a simulated environment that programs and systems could successfully handle a rollover from the year 1999 to 2000. This was completed by mid-August 1999.

The implementation phase – during which remediated systems went “live” – took place from late August through October 1999.

The rollover from December 31, 1999 to January 1, 2000 was extensively planned and carefully monitored. It went extremely well with no issues to report. LCBO stores opened for business on Sunday January 2, 2000 as planned (Saturday was a statutory holiday) and it has been ‘business as usual’ since – including Leap Year on February 29, 2000.

The Vice President of Information Technology kept Board Members informed of the LCBO’s progress regarding Y2K issues on an ongoing basis.

Ultimately, the Y2K project helped position the LCBO technologically for the 21st century through widespread program remediation and system upgrades and the streamlining of our IT infrastructure. The project also prepared the LCBO for the worst through the creation of corporate wide business continuity and contingency plans.

These measures should improve the efficiency of LCBO operations in the new millennium.

The Y2K effort was a success at the LCBO in that all work was completed to deadline, the project came in five per cent below budget and all LCBO operations were ready for business on January 1, 2000 – and beyond.

## SUMMARY

Due to careful planning, the Y2K issue never adversely affected the LCBO and its operations.

The Y2K project presented a considerable cost to the LCBO – over \$6.7 million was spent this fiscal year – but it was an investment that had to be made. Otherwise, systematic failures could have resulted in serious business interruptions.

# INCOME STATEMENT

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## NET INCOME UP \$36.3 MILLION

Net income for fiscal 1999-2000 was \$846 million. This was \$30.6 million over target and \$36.3 million higher than the previous year.

The income-to-net sales ratio was 33.4 per cent, exceeding our 1999-2000 target of 33.3 per cent.

Stronger net sales in general – an 8.9 per cent increase over last year – were boosted by LCBO promotional activities, a successful Christmas season as Ontarians celebrated the millennium, and the long summer season's impact on our sales of beer, coolers and other summer refreshment beverages. Other contributing factors were overall improved economic conditions; a trend towards premium products (discussed in greater detail in our Product Trends section); new store formats and store improvements; staff training; application of technology; and customer service initiatives such as debit/credit cards, AIR MILES Rewards and permanent Sunday openings.

## GROSS MARGINS

Gross margin as a percentage of net sales for 1999-2000 was 49.1 per cent, slightly below last year's 49.9 per cent. This decline reflects the continuing shift in the product mix away from spirits and towards beer and wine. For every dollar of net sales, our gross margin return on spirits is 58 cents. On wine, however, it is 51 cents and on beer 34 cents. Beer and wine now represent 50 per cent of total net sales, up from 49 per cent last year and 45 per cent five years ago. The increasing strength of beer and wine in the product mix means an ever greater proportion of our incremental sales dollars come from the sale of lower margin product lines.

The growth in the wholesale market also contributed to the lower gross margin ratio, due to the discounts provided on these sales.

## PRODUCTIVITY RATIOS

To track expenses and see where improvements are needed, the LCBO sets targets for many productivity ratios each year. For example, the store expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, rent and other expenses. A declining salary expenses-to-sales ratio means that staff are becoming more productive.

In fiscal 1999-2000, four of seven retail productivity ratios matched or bettered their targets. These four are considered the most important performance indicators.

*Store salary to sales:* We met the target ratio of 7.6 per cent and bettered last year's 7.8 per cent ratio despite extending hours in many stores to enhance customer service.

*Store expenses as percentage of sales:* We bettered last year's mark of 10.6 per cent, coming in at 10.5 per cent. We did not meet our target of 10.3 per cent, due mainly to increased costs related to staff product knowledge training.

*Store salary per unit sold:* We met the target ratio of \$0.84 and bettered last year's ratio of \$0.85.

*Store expenses per unit sold:* We came in at \$1.17, just over the \$1.16 in 1998-99 and our target of \$1.14.

*Unit sales per hour:* We came in at 25.7 in 1999-2000, below the 25.8 obtained in 1998-99 and the 26.8 target set for this fiscal year. One reason is the fact we opened a number of stores for the first time on Boxing Day – an unplanned event for which we had not budgeted. The trend towards trading up to premium products also contributes, as the net sales line moves up without proportionally affecting the unit line.

*Sales per customer:* At \$27.19, we did better than last year (\$26.19) by a full \$1.00 per customer and better than the target of \$26.82. This provides further evidence that LCBO initiatives and programs geared at encouraging customers to trade up to premium products are succeeding.

*Sales per square foot:* This ratio rose considerably, from \$1,546 to \$1,674, well past the target of \$1,605, despite adding more than 2.0 per cent, or 27,000 square feet, to our store network.

## LOGISTICS PRODUCTIVITY RATIOS

*Salary cost per case:* This ratio fell from 74 cents last year to 73 cents this year. We had hoped to shave another two cents per case off the cost, but had to pay significantly more in overtime to build up stock for the millennium holiday season.

*Warehouse cost per case:* This figure increased slightly from 91 cents last year to 93 cents this year. In addition to the overtime referenced above, we incurred unplanned expenditures on third-party warehousing owing to forward buying and the Christmas buildup.

*Logistics cases per hour:* This figure rose from 59 cases per hour to 61, yet off the target of 64 cases per hour, due to a significant buildup of inventory designed to compensate for potential third-party supply problems related to Y2K.

*Logistics cost per case handled:* Total Logistics expenses per case increased marginally from 58 cents to 59, missing its target of 57 cents. The Y2K buildup affected this ratio as well.

*Freight expense per case:* This figure came in at \$1.13, just slightly above the target of \$1.11.

*Inbound freight ratio:* This came in at 2.0 per cent, 10 basis points below our target of 2.1 per cent.

*Outbound freight ratio:* Last year's outbound freight ratio of 0.5 per cent increased to 0.6 per cent.

## RETAIL — FINANCIAL AND OPERATING HIGHLIGHTS

	1995-96	1996-97	1997-98	1998-99	1999-00
Store Salaries to Sales	8.5%	8.0%	7.8%	7.8%	7.6%
Store Expenses as Percentage of Sales	11.6%	11.1%	10.8%	10.6%	10.5%
Store Salary per Unit	\$0.91	\$0.86	\$0.84	\$0.85	\$0.84
Store Expenses per Unit Sold	\$1.25	\$1.19	\$1.16	\$1.16	\$1.17
Unit Sales per Hour*	n/a	24.5	25.4	25.8	25.7
Sales per Customer	\$24.75	\$25.28	\$25.75	\$26.19	\$27.19
Sales per Square Foot	\$1,349	\$1,365	\$1,452	\$1,546	\$1,674

\*Note: Previous annual reports reported Unit Sales per Full-time Equivalent (FTE) Hour. This has been redefined as Unit Sales per Hour for consistency across all reports, including corporate statements, the Annual Financial Plan and Annual Report.

*Since 1995-96, operating expenses as a percentage of net sales and other income have fallen from 17.0 per cent to 16.3 per cent in 1999-2000*



## LOGISTICS — FINANCIAL AND OPERATING HIGHLIGHTS

	1995-96	1996-97	1997-98	1998-99	1999-00
Salary Cost per Case	\$0.84	\$0.82	\$0.74	\$0.74	\$0.73
Warehouse Cost per Case	\$1.15	\$1.10	\$0.98	\$0.91	\$0.93
Logistics Cases per Hour	48	51	55	59	61
Logistics Cost/ Case Handled	\$0.76	\$0.70	\$0.63	\$0.58	\$0.59
Freight Expense per Case	\$1.22	\$1.22	\$1.15	\$1.07	\$1.13
Inbound Freight as % of Sales	2.1%	2.1%	2.0%	1.9%	2.0%
Outbound Freight as % of Sales	0.5%	0.5%	0.5%	0.5%	0.6%

## EXPENSE TARGETS

The administrative expense ratio increased slightly from 1.4 per cent in 1998-99 to 1.5 per cent in 1999-2000.

Operating expenses grew by 10.8 per cent, or \$40 million in 1999-2000. This reflects an increase in spending in the Information Technology division to protect the supply chain from Y2K interruptions; depreciation tied to increased capital spending; the growing expense of accepting credit cards, and the introduction of AMEX (approximately 21 per cent of LCBO sales are now paid by credit cards, another 23 per cent is paid by debit cards); and, increased spending in the Retail division reflecting the greater emphasis on staff training.

Since 1995-96, operating expenses as a percentage of net sales and other income have fallen from 17.0 per cent to 16.3 per cent in 1999-2000.

## OTHER INCOME

This category includes items such as parking revenues, Special Occasion Permits, airline markups, and investment income. Other income in fiscal 1999-2000 was \$15.8 million, down from last year's \$23.5 million.

# BALANCE SHEET

## LIABILITIES UP

Liabilities were up in 1999-2000, largely due to an increase in product accounts payable, from \$133.4 million to \$147.3 million. This reflects an increase in inventory purchases.

## YEAR-END INVENTORIES UP

Year-end inventory was up over last year – \$255.4 million in 1999-2000 versus \$236.3 million in 1998-99. We built up inventory to guard against possible interruptions in the supply chain resulting from the Y2K issue.

The inventory turnover ratio has declined from 5.4 to 5.2, down 3.7 per cent over last year.

# CHANGES IN OUR FINANCIAL POSITION

## MORE CASH ON HAND

Our cash position increased from \$24.6 million in 1998-99 to \$31.1 million at the end of 1999-2000.

## CAPITAL EXPENDITURES

(values in \$000s, numbers rounded)

	1995-96	1996-97	1997-98	1998-99	1999-00
Retail	14,463	8,110	13,008	17,730	22,998
Information Technology	8,639	8,720	8,472	17,834	24,895
Logistics	1,846	782	1,213	1,658	1,760
Marketing Programs	1,600	1,554	1,989	2,558	2,434
Other Administrative Divisions	670	248	917	1,179	1,463
Systems Improvements	n/a	n/a	n/a	n/a	808
Total Capital Expenditures	27,218	19,414	25,599	40,959	54,358

The increase in Retail capital expenditures reflects needed improvements to the store network; the Information Technology increase related primarily to Y2K compliance and a new point-of-sale system in stores; Marketing Programs' increase reflected new store signage and promotions to position the LCBO as the Source for Entertaining Ideas.

## CONTINUOUS INNOVATION

Our success as a retailer is due to continuous innovation. In the past year, we've introduced new retail formats, new products and services and increased staff knowledge to better serve our customers. Our number one goal is to provide compelling customer service.



*Customer Service Representative Joan Grove leads a cooking demonstration designed to help customers match food with the appropriate wine.*

## THE FIVE-YEAR PLAN

To meet our goal, we've developed a five-year capital strategy to allow us to:

- *continue to succeed in the changing beverage alcohol market*
- *increase customer satisfaction and remain the beverage alcohol retailer of choice*
- *maximize returns to Ontario taxpayers by generating increased dividends to the Ontario Government.*

The plan calls for \$251 million in capital spending over five years, with over 80 per cent spent on operations – the elements that customers see and experience. We expect an average dividend of \$833 million each year under the plan, or transfers of \$4.2 billion over the five years.

## LOOKING AHEAD

As we enter the third year of the plan in 2000-01, a growing economy and our continuing focus on improving the LCBO shopping experience should contribute to another strong year. We are forecasting an aggressive net sales growth of 8.2 per cent, or approximately \$208 million, to a total of \$2.741 billion.

Volume sales are also expected to increase by 8.8 per cent. This should exert less downward pressure on our gross margin as a percentage of sales. Gross margin will increase to 49.2 per cent from 49.1 per cent, as a result of greater growth anticipated in the spirits and wine categories, compared to beer.

Divisional expenses are budgeted to rise by 6.5 per cent to account for the increasing expense of marketing costs tied to new customer service initiatives designed to enhance the LCBO shopping experience, and the ongoing investment in staff training to provide knowledgeable service to our customers.

Our product costs are projected to fall slightly from 50.9 per cent to 50.8 per cent.

Given the margins and expenses we are budgeting, we expect net income to rise by 8.8 per cent or \$73.8 million.

Our dividend to government should increase for the seventh consecutive year, to \$850 million. Having achieved an \$800 million dividend in fiscal 1999-2000, we have now transferred an additional \$44 million over plan in the first two years of the five-year plan.

Our expense line was originally forecast at 16.8 per cent in the first year of our most recent five-year strategic plan and 16.9 in the second. However, having come in at 16.3 this year, and being projected to come in at 16.2 in 2000-01, we will have realized significant productivity savings.

We are well ahead of where we said we would be and will do everything we can to keep it that way.



*LCBO stores proudly display the award-winning wines of Ontario. High-quality wines bearing the Vintners Quality Alliance (VQA) label sold well this fiscal year, increasing their share of the domestic market from 12 to 14 per cent.*



# PRODUCT TRENDS

## Wine



*"The challenge is to keep our portfolio fresh and relevant, while also keeping inventory at optimum levels"*

THE WINES CATEGORY ENJOYED ANOTHER SOLID YEAR IN FISCAL 1999-2000, AS ONTARIO CONSUMERS CONTINUED TO SEEK OUT PREMIUM PRODUCTS TO MATCH THEIR INCREASING SOPHISTICATION.

Litre sales increased 6.0 per cent over the previous fiscal year and dollar sales increased 10.2 per cent to \$701.8 million.

White wines accounted for 44.9 per cent of litre sales; red wine for 38.1 per cent; sparkling, fortified and other wines for 12.7 per cent; and rosé for 4.3 per cent.

### MILLENNIUM CELEBRATIONS

"The millennium celebrations were an important driver," says Director of Wines Tamara Burns. "Champagnes and sparkling wines did exceptionally well for us, especially in December."

Sales of French Champagne totaled \$19.8 million this fiscal year, an increase of 50 per cent over the previous year. Sparkling wine sales totaled \$39.7 million, a 16.2 per cent increase.

Table wines in premium price bands also did well, Burns notes. "And that's been the case throughout the year."

### IMPORTS GAIN SHARE

Imported wines gained market share, led by Australia.

Imported wines now hold about 67 per cent of market share and domestic wines 32.7 per cent, down slightly from last year's 33.2 per cent.

Australia enjoyed a 32.2 per cent increase in litre sales and has now surpassed Chile to become a top-five country. With the Olympic Games slated for Sydney in September, 2000, Burns expects Australia's market share to improve even further.

Other movers were South Africa, which gained 15.1 per cent to move into the top 10, and the U.S., which gained 9.2 per cent.

On the European side, Italy and Portugal enjoyed litre sales increases of 10.8 and 7.1 per cent respectively.

## THE DOMESTIC PICTURE

Domestic wines did better than last year, with litre sales increasing by 4.3 per cent and dollar sales by 6.0 per cent. VQA (Vintners Quality Alliance) products led the way, increasing their share of the domestic market from 12 to 14 per cent.

The LCBO has undertaken a number of initiatives to promote Ontario wines to customers, including a training program called WOW – Uncork the Knowledge. All LCBO Retail staff were invited to day-long sessions where they could learn more about Wonderful Ontario Wines (WOW) and why they present good value to customers. A similar program called That's the Spirit helped turn around the spirits category in the mid-1990s.

Burns believes there's more the domestic industry can do to increase market share in coming years.

"Recent vintages have all been excellent, but Ontario is a tremendously competitive marketplace," she comments. "I think suppliers need to establish themselves more in the premium segments currently dominated by imported reds."

Domestic products from British Columbia sold well in the past year, she adds, and now account for about 2 per cent of domestic sales.

## TRADING UP CONTINUES

Customers continue to learn about wines and buy more expensive products. "Four years ago, 97 per cent of wines in our category sold for under \$10," Burns notes. "Now it's around 90 per cent."

The LCBO has encouraged this trend by seeking out new products in the \$10 to \$15 price band, hiring more product consultants, posting more tasting notes in stores, offering product seminars and encouraging producers to include more information on labels.

## VARIETALS STILL HOT

Customers continue to seek out varietals – wines made from a single grape variety – rather than blends.

Among white varietals, Chardonnay is generally the most popular, but Riesling did well last year, its sales increasing by 10 per cent. "That bodes well for Ontario, which makes fabulous Rieslings," says Burns.

Other white varietals to watch are Semillon and Chenin Blanc.

In red wines, Merlot continues to sell well, as does Shiraz – the New World version of the French grape Syrah. Malbec, planted mainly in Chile and Argentina, is gaining popularity as well.

The Wines category offered a total of 1,600 SKUs (Stock-Keeping Units) in fiscal 1999-2000. "We added about 400 new products and dropped some 250 that were not performing well," says Burns. "The challenge is to keep our portfolio fresh and relevant, while also keeping inventory at optimum levels."

One new product category emerged in 1999-2000: refreshment flavoured wine beverages. These are varietal wines mixed with essences of fruit or lightly carbonated, and generally low in alcohol. The LCBO offered 14 products in 1999-2000, nine from Ontario suppliers. Sales topped \$4 million.

## LOOKING AHEAD

Burns expects Ports to do well in the coming year. So should dessert wines, including late harvest products from Ontario, Chile, Australia, France and Italy.

Ontario had another superb harvest in 1999, so she expects the new vintage to equal the excellent 1998s.

She expects the Australian success story to continue. One other New World country to watch, according to Burns, is Argentina, whose sales rose by 60.8 per cent this year.

She also sees room to grow the gift business. "That did very well for us last year, especially running up to the millennium. But we have a wide range of products that would make excellent gifts year round."



# Spirits

WHEN SPIRIT SALES BOTTOMED OUT IN THE EARLY TO MID-1990S — BESET BY CHANGING CONSUMER TASTES, CROSS-BORDER SHOPPING, SMUGGLING AND A LONG RECESSION — THE LCBO AND ITS SUPPLIERS FACED CONSIDERABLE CHALLENGES IN RENEWING THE CATEGORY.

But renew it they have.

Spirit sales grew by 5.3 per cent in dollars in fiscal 1999-2000, to a record \$1.14 billion. Litre sales grew by 3.3 per cent.



"That's just shy of our 5.5 gain in fiscal 1998-99," says Director of Spirits Bob Downey. "Two years like that are important when you consider spirits generate some 53 per cent of our profits."

A number of factors have contributed to the turnaround:

- *Ontario's economy is stronger*
- *improvements to the LCBO shopping experience and increased enforcement efforts have helped curtail smuggling and the demand for illegal products*
- *LCBO retail employees have increased their knowledge of spirit products and their comfort level in discussing them*
- *the aging boomer population tends to choose premium products*
- *suppliers have delivered excellent products, especially in premium price bands*
- *the weaker Canadian dollar has discouraged cross-border shopping.*

This year's results were also boosted by the coming of the new millennium, and the fact that many people celebrated at home, Downey explains. "The millennium was not just a Champagne story. In general, people treated themselves to premium products, whether as gifts or as part of their entertainment plans. And that meant good news for the spirit category."

Spirit products also tend to represent the lion's share of pre-packaged gift items in LCBO stores, and these sold well this Christmas.

The most popular were giftpacks that combined snifters or other glassware with a 750 mL bottle of spirits, especially recognizable brands such as Canadian Club, Johnnie Walker and Crown Royal.



## TEQUILA LEADS GROWTH

The strongest sales increases came in these sub-categories: Tequila (18.5 per cent); single malt Scotch (16.4 per cent); flavoured vodka (14.1 per cent); Irish whiskey (13.9 per cent); and American whiskey (10.4 per cent).

In most of the above categories, growth was driven by premium products – a trend that has been in evidence the last few years.

Liqueurs – especially fruit liqueurs – also grew strongly in fiscal 1999-2000, gaining 10.6 per cent year over year.

Grappa, a distilled spirit made from the fermented skins and seeds of grapes pressed for winemaking, grew by 35 per cent but is still a niche product with annual sales of less than \$700,000.

“The popularity of flavoured martinis seems to be waning,” in Downey’s opinion, “but at the same time we’re seeing a revival of classic cocktails like the Manhattan and the Sidecar. I see good long-term potential for this kind of drink.”

Canadian whisky accounts for nearly one-third of the entire LCBO spirits business. Sales this year grew by about 1.5 per cent to a total of \$337.3 million. Market share, however, declined to 30 per cent, down from 32 per cent last fiscal year.

## UNDERSTANDING ETHNIC COMMUNITIES

The category offered nearly 900 listings in fiscal 1999-2000, an increase of 115 over last year.

Among the new brands offered were products requested by Ontario’s ethnic communities. Says Downey: “Retail managers who serve large ethnic populations in their stores funnel information to Merchandising on products of interest to these communities. That channel has worked really well for us, judging by the feedback we’ve received from customers.”

The LCBO will continue to improve service to ethnic communities by researching their tastes more thoroughly; by tying promotions to key holidays and festivals, such as Caribana and the Chinese New Year; and by creating signage and displays that help ethnic customers make more informed buying decisions.

## LOOKING AHEAD

The LCBO will continue to promote cocktails by encouraging suppliers to take part in tastings, and by producing brochures that show how to make popular cocktails.

“We will also work with suppliers to go beyond the standard gift offerings in the category,” Downey notes.

One concern is a global shortage of Tequila due to supply and demand problems. This global problem has led to price increases of up to 60 per cent on popular brands and difficulties in securing supplies. The LCBO has bought as much Tequila as possible to meet customer demand.

Downey believes the time may have come for a rise in the popularity of gin – “an undervalued, under-appreciated product.”

Sales of single malt Scotch – which launched the trend toward premium spirits this decade – show no signs of waning.

The Spirits category will also feature new and interesting liqueurs.

“We’d like to make the category more accessible to consumers in a number of ways,” adds Acting Director Shari Mogk-Edwards, who took over the category on secondment this spring. “Our spirit displays are generally along the perimeter walls of our stores, in long lines that are not that interesting to look at. We plan to test new strategies that would help make these sections more appealing. We should also be providing more product information and tasting notes to shoppers who enjoy learning more about beverage alcohol and entertaining.”

# Beers Special Markets

ACTING DIRECTOR RANDI LANDY DESCRIBES THE PERFORMANCE OF BEERS & SPECIAL MARKETS IN 1999-2000 AS "ROCK SOLID."

The category posted gains of 9.6 per cent in litres and 11.7 per cent in dollars, with total sales climbing past \$500 million for the first time.

The main product lines in this category are beers; coolers, mainly spirit-based but also made with wine and beer; ciders; ready-to-drink and ready-to-mix products; kosher products; saké; and accessories.



## PREMIUM BEER LEADS THE WAY

In all, the LCBO offered some 287 brands of domestic and imported beer in fiscal 1999-2000, not including those that are offered only in combo stores, such as 12- and 24-unit cases of domestic beer.

According to Landy, the fastest-growing sub-category was premium imported beer from countries other than the U.S., which grew by 30.2 per cent.

"Consumers are choosing quality and flavour over price, much as they are with spirits and wine," she comments.

Familiar brands like Old Milwaukee, Corona and Heineken topped the import list this year, along with beers from Germany, Poland and the U.K.

Domestic Ontario beer, which accounts for 37.1 per cent of the category, posted a 7.3 per cent gain year over year.

Sales of microbrews grew by 9 per cent.

Out-of-province Canadian beers (such as the popular Moosehead) grew by 23 per cent.

Sales of U.S. beer rose by 3.8 per cent last year, led by Old Milwaukee.

Beer has the potential to become a popular gift item, according to Landy. "Some suppliers have created excellent gift items, like the Dutch beer Grolsch,



which was introduced for the 1999 holiday season in a magnum size, with the same distinctive design and swing-top stopper known world wide. Customers told us the beer was great, the bottle was great and the price was right."

## COOLER SALES COOL DOWN

Two years ago spirit coolers were the story in Beers & Special Markets. Sales of one new innovative product (Mike's Hard Lemonade) soared, taking the entire segment with it. In fact, in fiscal 1997-98 and 1998-99, cooler sales climbed by a remarkable 128 per cent.

Today, Mike's Hard Lemonade is still the best-selling cooler, but sales have slowed.

"The key to this category is new and innovative products," Landy explains. "This year, Mike's has expanded its product line with lower alcohol versions (4.9 per cent) of the original flavours. We're also anticipating success from new entries like REV, a vodka-based cooler complemented by unique ingredients like guarana, caffeine and kola nuts."

While accounting for a small volume of sales, beer coolers posted very strong growth last year - some 345 per cent.

## OTHER PRODUCTS

Sales of ciders declined again in fiscal 1999-2000, by 15.1 per cent. "We have to work with suppliers to renew customer interest," Landy notes. She also plans to source some well-known cider brands from the U.K.

Ready-to-drink and ready-to-mix products also declined this year, though not as sharply as ciders. "There may be some confusion about these two sub-segments," she admits. "But we're planning a number of merchandising initiatives to eliminate that confusion and turn them around."

The LCBO's portfolio of kosher products is doing very well, according to Landy. "We've more than tripled the number of products we carry, up to 80, and grew the category year over year by 23 per cent. We've also worked to get the word out that the LCBO is more than a place to buy kosher wines. We can be a source of entertaining ideas year-round for Jewish customers as they celebrate holidays and plan festive meals. It is another example of how the LCBO serves Ontario's ethnic communities."

Sales of accessories continued to grow as the LCBO streamlined and focused its product lines. "By doing so, and by ensuring consistent stock year-round, we grew our accessory business by 39 per cent, up to \$5.4 million. Being a one-stop shop for busy customers is integral to our strategic vision," according to Landy.

## LOOKING AHEAD

Anticipated growth areas include kosher wines, sakés, and beers from East Asia, Poland, Central America and the Czech Republic. While saké is a niche product, it is fast becoming more popular on its own and in cocktails such as the sakatini.

"We need to continue to inform our customers about the merits of premium products," adds Landy. "This will be achieved through product education, in-store tastings, exciting new purchases and promotions, and a seasonally rotated portfolio."

"We'll do everything we can to satisfy our customers' thirst for knowledge and to promote our products as year-round beverages - not just summer refreshment."

Promotions already planned for fiscal 2000-01 will focus on summer wheat beers and winter beers. Landy also plans to source more fruit-flavoured beers and will continue to promote the Mix & Match program, which allows customers to try beers, coolers and ciders without necessarily having to buy them in six-packs.



# Vintages

VINTAGES IS THE PREMIUM PRODUCTS DIVISION OF THE LCBO. IT SOURCES FINE WINES, PREMIUM SPIRITS AND SPECIALTY BEERS FROM ALL OVER THE WORLD, RELEASING THEM TO THE PUBLIC IN SOME 150 LCBO STORES, AND THROUGH THE POPULAR *'CLASSICS CATALOGUE* AND OTHER PROGRAMS AND CHANNELS.

Vintages' sales in 1999-2000 totaled \$115 million, a 30 per cent increase over the year before.

"We saw constant growth throughout the year," Director Tom Wilson notes. "It didn't peak with a certain program or portfolio and then drop. In fact, it's been fairly constant over the past seven years."

The vast majority of Vintages' portfolio is red wine. "Most serious enthusiasts and collectors are mainly interested in red wines, which tend to be more sophisticated than whites, and have greater capacity to age," Wilson explains.

Every month, Vintages releases up to 175 new products into selected stores. It also stages up to eight "thematic" releases a year, which focus on a particular region or style.

The largest single supplier of Vintages wines is France, particularly its Bordeaux and Burgundy regions. Others include California, Italy, Australia, Canada, South Africa, New Zealand and Germany.

Another 1,500 products a year are available through the *Classics Catalogue*, now published three times a year, and through the Futures program, which allows customers to buy fine wines at lower prices before they are bottled. In all, some 3,570 products were offered in fiscal 1999-2000.

Wilson credits Vintages' strong performance to a number of factors, both external and internal.

"Ontario is a maturing marketplace, with many affluent people in empty-nest situations. A growing number are interested in wine – reading about it, travelling to wine regions, surfing the Internet for information. They want to experience the world of wine and entertainment – and we're well positioned to help.

"You also have to look at the quality of wine being made," he adds. "Not everyone realizes it, but Vintages sells many excellent wines for less than \$15. We can do that because a \$15 wine is better today than ever, thanks to improved grape growing and winemaking techniques."

Internally, new merchandising programs have helped demystify the world of fine wine; high-profile public events have fostered greater awareness of Vintages programs; and strategic alliances with other retailers have created greater brand awareness and an expanded client base.

One of this year's most successful innovations was the Wine of the Month program, designed to bring new customers into the Vintages fold.

"Customers who did not necessarily know a lot about wines would know that the Wine of the Month provided excellent value for money," Wilson observes.

Wines of the Month tend to range in price from \$10 to \$20. Five of the first six choices happened to be New World Wines – including one VQA product – which reflects current trends in customer interest.

Another success was the Essentials program, an international portfolio of Vintages products available on a continuous basis – which makes them attractive to licensees and retail customers.

Vintages' monthly release circulars and the *Classics Catalogue* were revamped to make them more accessible and informative.

"The Vintages audience wants information," says Wilson, "and doing a better job of providing that information helps drive our business."

Sales through the *Classics Catalogue* are now \$10 million to \$12 million a year, with each edition outperforming those that came before, according to Wilson. "This year, we made it larger and more readable, with more tasting notes by our panel, as well as experts like Robert Parker Jr. and the *Wine Spectator*."

The 1998 Bordeaux Futures program accounted for a record \$4.1 million in sales, 30 per cent higher than the previous best year, 1996. "With this program, and our catalogues, we are making products accessible to people who would otherwise seek them out in New York, Chicago or other markets," says Wilson.

Retail upgrades also boost Vintages sales. New flagship and full-service LCBO stores have included spacious, attractive sections that can accommodate hundreds of products.

"This is an extremely positive trend," Wilson believes. "It helps raise the satisfaction level of customers who like to feel they've come somewhere special, and who judge wine merchants by the breadth of the selection they offer."

## LOOKING AHEAD

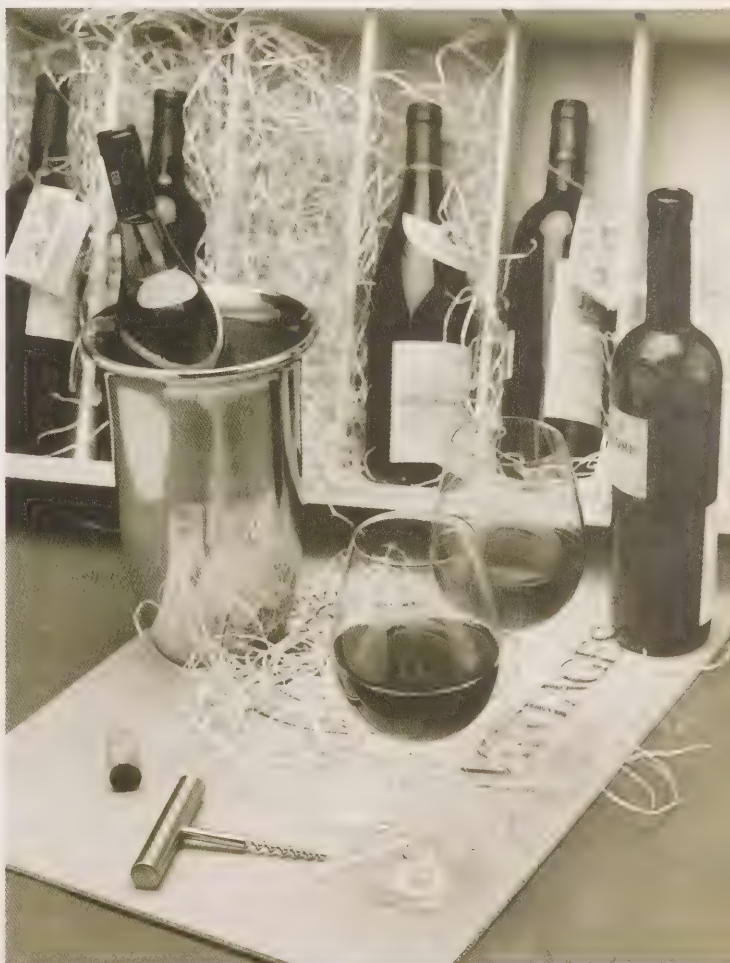
Wilson expects his business to grow in double digits again in 2000-2001.

"We will continue to develop and implement programs to increase the satisfaction levels of all our customers - those who've been with us a while and those just joining the fold.

"We'll have two Wines of the Month, to add to the excitement and convenience of the program. We also plan to launch a Vintages Cellar Direct program that would help budding collectors launch their wine cellars.

"We'd also like to develop a greater presence on the Internet. We see a huge opportunity to leverage our website ([www.vintages.com](http://www.vintages.com)) to increase the efficiency of our business and offer the broadest portfolio in a cost-effective way.

"We also plan to stage more high-profile events with strategic partners, both in the beverage alcohol trade and outside where synergy exists," Wilson concludes. "Special events are an important part of moving things forward."





# UPGRADING OUR STORE NETWORK

LIKE OTHER MAJOR RETAILERS, THE LCBO MUST CONSTANTLY RE-EVALUATE ITS STORE NETWORK, AND IMPROVE IT WHEREVER POSSIBLE, TO ENSURE IT IS MEETING CUSTOMER EXPECTATIONS FOR SERVICE, SELECTION AND ACCESSIBILITY.

In fiscal 1999-2000 we spent \$14.2 million to build, upgrade or relocate stores, roughly the same as the previous fiscal year. Another \$7 million was spent on maintenance and repair costs for the store network and Head Office facility, and to replace outdated outdoor signage.



*The LCBO's new store in Brampton's Orion Gate Power Centre has a separate By the Case section to make shopping more convenient for wholesale customers. Customer Service Representative Linda Tome processes an order for area licensee Jack's Backyard. Left to right: co-owner Tosh Sourlis, manager Wendy LaVictoire and co-owner Jack Sourlis.*

In all, 28 stores across the province were upgraded or relocated in fiscal 1999-2000, including outlets in Ajax, Brampton, Elgin, Gananoque, Hamilton, London, Markham, Newmarket, Oakville, Orangeville, Ottawa, Seeley's Bay, Sudbury, Toronto and Westport. Together they represent more than 130,000 square feet of new format space.

Our new full-service store in Ottawa (Nepean) opened to rave reviews in January. "Spectacular," wrote Ron Eade in the *Ottawa Citizen*. "It's nothing short of astounding.... Check it out and prepare to be dazzled." *Citizen* wine writer Peter Ward called it "the nicest liquor store I've been in." Customers have also shown their approval: according to recent figures, sales are up some 60 per cent since opening day.

The Brampton store, located in Orion Gate Power Centre at Highway 410 and Steeles Avenue, introduced a new, entirely unique feature designed to improve service to licensees and other wholesale customers: a separate 2,700-square-foot section called By the Case, where they can buy cases of domestic and imported wines right off warehouse-style racks. By the Case also features two dedicated checkouts to accommodate busy licensees, and specially designed shopping carts to help them move cases out to the parking lot.

Sales to licensees have tripled since it opened in the fall of 1999; overall, sales are up 104 per cent since opening. The trade area is also up by 10 per cent, meaning the sales haven't necessarily been cannibalized from nearby LCBO stores.

Every retail improvement project at the LCBO is designed to increase customer satisfaction and to generate sufficient additional revenue to pay for itself. Stores upgraded in fiscal 1998-99 experienced sales increases averaging 23 per cent, led by the Bayview Village flagship at 85 per cent.



In some cases, we close older outlets that date back to a time when liquor stores were relegated to Ontario's backstreets. Today, we're interested only in locations that are visible, easily accessible and close to where people live and shop. In this we are guided by market research conducted by our Customer Insights Group, which uses everything from Statistics Canada research to our own detailed customer surveys to pinpoint the best possible locations for our stores.

Factors such as parking, visibility, barrier-free access, loading facilities and demographics are all considered before a lease is signed or ground broken for a new store.

Follow-up research tells us customer satisfaction increases as we improve our store network. In February of 2000, 63 per cent of more than 2,000 customers surveyed said they found our stores had appealing atmospheres, compared to 60 per cent the year before, and 85 per cent said our stores were bright and clean, compared to 84 per cent the year before. We believe these numbers will continue to rise as more stores are upgraded.

In-store interviews at the Bayview Village flagship store have elicited extremely positive comments from customers, some of whom said they had brought out-of-town friends to visit it much as they would a tourist destination. Some respondents said the new store fundamentally changed their perceptions of the LCBO - for the better - as well as their shopping behaviours. They were spending more time browsing; were being more experimental with their purchases; were coming in to look for items reviewed or featured in *FOOD & DRINK*; and were making Bayview Village their destination store - even if another LCBO was closer to home.

We have won more than 30 design awards in open competitions since 1990, including two from the Retail Council of Canada. We were a finalist for yet another Retail Council design award this year, for a kiosk erected in the Sherway Gardens mall this Christmas.

So whatever perspective we take - improved sales, improved customer satisfaction ratings, design awards - we believe our upgrades are well worth the effort.

Our current five-year strategic plan (which runs until 2003) calls for all new LCBO stores to fall into one of four formats: flagship, full-service, new IMAGE or mini. Over the next three years, we plan to improve the store network as follows.

*Flagship stores:* like our Bayview Village store in Toronto, which opened in February 1999, they range up to 30,000 square feet and are located in large urban centres, carrying a global assortment of LCBO General List and Vintages products and gifts. They also offer a complete range of LCBO customer services and special events, including demonstration kitchens; VQA sections; listening stations where customers can preview music to round out their party atmosphere; a computer terminal where "surfers" can look up product information on the Internet; and a gift centre, where shoppers can find the ideal gift for any occasion. It's also worth noting that prior to opening day, the staff at new flagship stores undergo up to two weeks of intensive training to ensure they can provide the knowledgeable service customers at flagship stores expect.



While no new flagships opened in fiscal 1999-2000, we did complete the lion's share of work on an impressive two-story flagship that opened on Rideau Street in Ottawa May 4, 2000. This 28,000-square foot store boasts all the same features as the Bayview Village store, plus a unique Vintages section on the lower level that evokes the old-world feeling of the cellar of a French chateau.



*New flat-screen point-of-sale monitors - like the one behind Customer Service Representative Brenda Seawright - display product information, social responsibility messages and transaction details.*

Three more flagships are expected to open over the next three years.

**Full-service stores:** up to 20,000 square feet in major and medium-sized urban markets, these stores provide customers with a complete range of LCBO products and services in easily accessible locations. They have a wide assortment of products (2,500-3,000), a gift centre, and a Vintages boutique carrying 500-800 brands. They also offer special events to suit the specific market. Two opened in fiscal 1999-2000; another 20 are planned over the next three years.

**New IMAGE stores:** at 7,000-10,000 square feet, these stores provide customers with a wide range of LCBO products, services and special events in easily accessible locations. They carry 1,800-2,000 General List products and have a Vintages boutique with up to 500 brands. They are found in both major and smaller urban markets. Eight opened in fiscal 1999-2000; up to 32 are planned over the next three years.

**Mini-stores and kiosks:** at 600-3,000 square feet in high-traffic shopping areas, these stores are designed to service a specific customer niche and close the gap in under-served areas. Several target specific niche markets, like our Chinese kiosk in Markham and our Kosher kiosk in Thornhill. Mini-stores offer 500 of the most popular brands from the General List and Vintages. Eighteen opened in fiscal 1999-2000, not including six seasonal kiosks we opened to handle increased millennium shopping in December 1999; another 15 are planned over the next three years.

By following this strategic plan, and heeding carefully the results of ongoing customer research, the LCBO retail network will continue to evolve to increase profitability, and to meet and exceed expectations in every market we serve.



# SOCIAL RESPONSIBILITY

IN JUNE 1999, THE LCBO CONDUCTED A COMPREHENSIVE EMPLOYEE ATTITUDE SURVEY TO FIND OUT MORE ABOUT HOW EMPLOYEES FELT ABOUT WORKING FOR THE ORGANIZATION, AND TO GET THEIR THOUGHTS ON WAYS TO IMPROVE IT.

In analyzing more than 4,000 responses, the pride employees feel in working for the LCBO clearly stood out. And the greatest single determinant of their pride, most said, was the social responsibility role they play. As one employee wrote: "I feel proud to do my part here. It makes a difference in my life."

The LCBO believes it can make a difference in every community it serves, by refusing to serve minors or customers who appear intoxicated; by creating thought-provoking advertising aimed at deterring impaired driving; by creating and distributing other materials on responsible hosting and consumption; by raising funds for MADD Canada and other partner organizations; by conducting its business in an environmentally responsible fashion; and by deterring the production, smuggling and consumption of untested illegal alcohol.

Our commitment has not gone unnoticed by the public. In a February 2000 survey of Ontario residents, 70 per cent of respondents said they thought the LCBO was doing a good job of promoting the responsible use of beverage alcohol (up from 65 per cent one year earlier); and 79 per cent said they approved of our efforts in controlling sales to minors.

*The LCBO believes  
it can make a difference  
in every community  
it serves*

Our key social responsibility initiatives in fiscal 1999-2000 can be broken down into the following categories:

- *Challenge and Refusal*
- *Promoting responsible consumption*
- *Fundraising*
- *Advertising*
- *Partnerships*
- *Quality Assurance and the fight against illegal alcohol.*

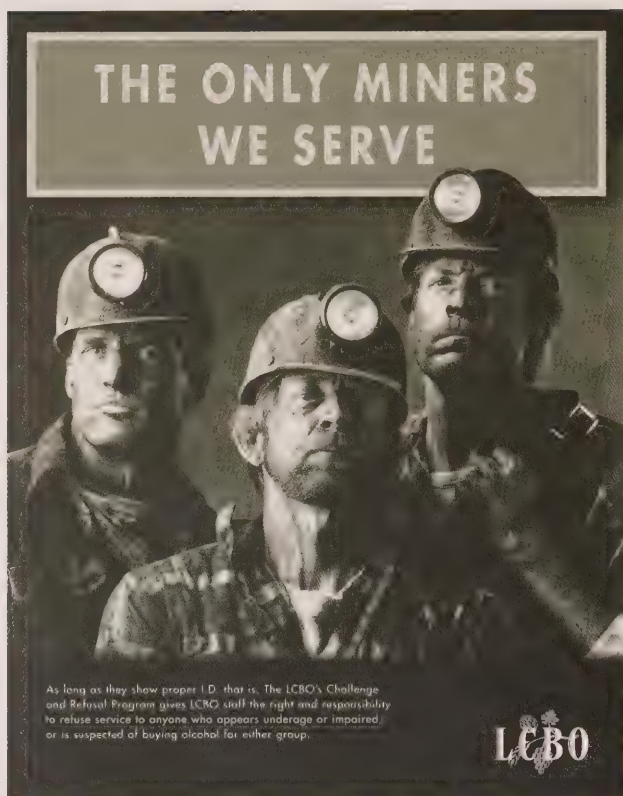
Following are brief highlights of each.

***Challenge and Refusal:*** All LCBO Retail employees are trained to challenge and refuse service to any would-be customer who appears to be impaired or who appears under 25 and cannot produce valid ID. They also refuse to serve "second-party purchasers" - anyone believed to be buying alcohol for minors or people already impaired. In fiscal 1999-2000, LCBO employees challenged 913,810 customers, almost 10 per cent higher than the year before. More than 82,000 were refused.

As a recent well-received LCBO in-store poster campaign attests, "the only minors we serve" are those who work underground - assuming they can prove they're of age. This poster, reproduced in newspapers and magazines, was developed to foster public awareness and support of our Challenge and Refusal program.

The LCBO issues tamper-resistant BYID photo cards to help its Retail staff - and others who sell beverage alcohol - determine whether prospective customers are of legal drinking age. We issued 3,123 cards in fiscal 1999-2000, each bearing a responsible consumption message on the back. As of fiscal year-end, nearly 12,000 BYID cards had been issued since the program's inception in 1996.





In fiscal 1999-2000, we also developed a Working SMAART Quick Check ID Guide that displays all forms of proof-of-age photo identification prescribed under Ontario's *Liquor Licence Act*. Though developed to support LCBO employees, it will be a useful resource for all beverage alcohol servers in Ontario.

**Promoting responsible consumption:** The LCBO believes beverage alcohol is best enjoyed in moderation and reinforces that message through a variety of media. These include its Internet sites at [www.lcbo.com](http://www.lcbo.com) and [www.vintages.com](http://www.vintages.com); brochures like *Having a Party?*, which provides useful tips on responsible hosting; and articles, ads and recipes in *FOOD & DRINK* that show how beverage alcohol can be best matched with food. The LCBO also offers many low-alcohol wines, beers and spirits in its stores, and sets minimum prices for its products, to encourage responsible consumption. LCBO shopping bags contain a responsible drinking message, as do display screens on all new point-of-sale terminals; and many LCBO staff appear at many trade shows and festivals where they distribute materials on social responsibility. Our new store formats – many of which include demonstration kitchens – reinforce the notion of beverage alcohol as a product to be enjoyed in moderation and with food.

This past holiday season, because of the intense focus on the coming of a new millennium, we paid particular attention to responsible hosting and other aspects of social responsibility. We created a Millennium party planner, which advised hosts on the best ways to welcome the year 2000 safely; created television commercials that urged people who drink to do so moderately; and distributed wallet-sized taxi cards in a number of markets to remind people who planned to drink to seek alternative transportation.

**Fundraising:** As part of its commitment to the communities it serves, the LCBO raises more than \$1 million a year for United Way and other charities. In the fall of 1999, employees raised a record \$234,800 for the United Way, through their own donations and by staging special events. Donation boxes in our stores raised another \$265,495 for national and provincial organizations. An additional \$99,000 was raised for veterans through the sale of poppies in our stores. We also raised \$65,000 for a number of charities through the sales of promotional compact disks in our stores. Other monies come from in-store tastings and many other events.

**Advertising:** The LCBO uses a variety of media to advertise its commitment not to serve minors and to encourage people not to drink and drive. In 1999-2000, we unveiled an innovative outdoor advertising campaign to send the message that "Drinking and driving is no accident" – whether the vehicle is a car, boat or snowmobile. The campaign, launched in partnership with MADD Canada, included a number of three-dimensional billboards on which actual wrecks of crashed vehicles were mounted. More than 26,000 posters bearing the same dramatic images were distributed province wide. Independent research shows the campaign was extremely well received; it also resulted in a great deal of media coverage, providing strong reinforcement of its message.

Other advertising campaigns promoted responsible drinking throughout the year, especially during the holiday season when the incidence of impaired driving tends to rise. Among these were an award-winning 90-second cinema commercial that elicited extremely favourable comments from viewers.

In fiscal 1999-2000, we began work on a hard-hitting multimedia campaign that will focus on the severe consequences of drinking and driving. Aimed at moderate drinkers who are most likely to modify their behaviour, especially males aged 25-34, the year-long campaign will build on the success of other recent campaigns. It will feature powerful 30-second television and radio commercials designed to make people think twice about driving after they've consumed beverage alcohol. The message emphasizes personal responsibility: "Drinking and driving is no accident. It's a choice. Make the right one." These will be supported by print ads in *FOOD & DRINK* and by posters mounted in washrooms of licensed establishments, where the target audience is likeliest to see them. The campaign commences in June 2000.

**Partnerships:** Our success in promoting the responsible use of alcohol, and protecting Ontario's communities from impaired driving and illegal alcohol, must be shared with many other organizations. In the past year alone, these included the Canadian Association of Liquor Jurisdictions, the Association of Canadian Distillers, the Distillers Council of Ontario, the Ontario Association of Chiefs of Police, RIDE, Variety Village, Ontario's Ministry of Transportation, MADD Canada, the Canadian Red Cross Society, the Ontario Community Council on Impaired Driving, BACCHUS Canada, the Lifesaving Society, the Canadian Power and Sail Squadrons, the Ontario Federation of Snowmobile Clubs and the Ontario Snowmobile Safety Committee.

The LCBO also partners with a number of organizations that work to improve Ontario's environment. In fiscal 1999-2000, these included Recycling Council of Ontario; Corporations Supporting Recycling; Pollution Probe; and the United Nations R-2000 Environmental Program. Chair and CEO Andrew S. Brandt also represents the LCBO on the Board of Directors of the Waste Diversion Organization - a partnership of government, municipalities and industry - whose mandate is to help fund and improve the effectiveness of municipal Blue Box and other waste reduction and diversion programs. The LCBO contributed \$5 million in 1999-2000 to this initiative.

**Quality Assurance and the fight against illegal alcohol:** Every year, the LCBO Quality Assurance laboratory runs hundreds of thousands of tests to ensure all products meet exacting standards for taste and safety. In fiscal 1999-2000, we ran 299,000 tests on 12,600 products. These represented increases of 13 and 5 per cent respectively over the previous year. QA staff also tasted 4,900 products - 14 per cent more than the previous year - to help determine whether they met the LCBO's high standards of quality. A recent survey of suppliers, agents and Canadian manufacturers of beverage alcohol show that 70 per cent believe the service they get from the Quality Assurance laboratory has significantly improved over the past two years.

Because of this effort, LCBO customers can buy new or familiar products, knowing they'll be safe to drink. The same, unfortunately, cannot be said of smuggled alcohol and illegally manufactured wine, which pose a threat to the health of anyone who drinks them. To protect the health of consumers - and prevent the diversion of revenue from the government to criminal organizations - the LCBO works diligently with law enforcement agencies across the province to stem the flow of illegal alcohol. These efforts appear to be working. The illegal market was estimated at \$456 million in fiscal 1999-2000, down about 16 per cent from the year before. This decrease can be traced not only to enforcement activities, but to the overall improvement of the LCBO shopping experience, which draws customers away from illegal channels.





# PUBLIC SECTOR DISCLOSURE ACT

The *Public Sector Disclosure Act*, passed by the Ontario Legislature in 1996, is designed to make the public sector more open and accountable to taxpayers. The Act requires Ontario's public sector organizations, including the LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees whose employment income is \$100,000 or more a year. In keeping with the requirements of the Act, the LCBO submits the following information for calendar 1999.

There are 29 names on this year's *Public Sector Disclosure Act* list, compared to 18 the year before. This increase is due in part to the fact that many LCBO managers are at the top of their pay ranges, owing to their years of service; a pay-for-performance plan for management and excluded staff, enacted in 1997 to bring LCBO salaries closer to industry standards; and because many managers opted to take unused Management Compensation Option (MCO) days as cash in lieu of days off. Management and excluded staff are eligible to receive five MCO days a year.

\*While the Chair/CEO's base salary of \$104,054 remains unchanged, his remuneration for calendar 1999 includes a retroactive pay-for-performance bonus for three fiscal years (20 per cent for each of 1996-97, 1997-98 and 1998-99).

\*\* The Executive Vice President's remuneration for calendar 1999 includes a retroactive pay-for-performance bonus for three fiscal years (15 per cent for 1996-97 and 1997-98 and 20 per cent for 1998-99).

Name	Position	Employment Income	Taxable Benefits
Bonic, J.	Director, Store Development & Real Estate	\$106,556.59	\$341.76
Brandt, A.S.	Chair & CEO	\$165,294.71*	\$349.92
Browning, J.A.	VP, Finance & Administration	\$144,101.40	\$422.44
Buck, P.	Director, Human Resources Services & Compensation Initiatives	\$103,211.02	\$337.56
Cardinal, N.	Director, Marketing Communications	\$111,442.53	\$347.64
Clute, C.P.	(seconded to Office of Privatization)	\$110,297.15	\$377.98
Dutton, R.	Director, Financial Planning & Economic Development	\$113,367.68	\$350.16
Ecker, R.	Director, Regional Office	\$111,402.54	\$408.64
Fisher, R.	Director, Regional Office	\$108,897.54	\$414.64
Fitzpatrick, Mary	VP, General Counsel & Corporate Secretary	\$142,717.77	\$422.44
Flynn, L.	Director, Regional Office	\$114,556.13	\$510.02
Gee, L.C.	Executive Vice President	\$240,877.21**	\$550.54
Green, M.	Lawyer	\$110,415.71	\$352.08
Kane, M.	VP, Human Resources	\$144,101.40	\$422.44
Kelly, H.	VP, Information Technology	\$153,771.40	\$422.44
Kennedy, W.	Director, Corporate Communications	\$114,997.21	\$352.08
Ker, G.	Director, Corporate Policy	\$104,267.63	\$337.80
Lyons, C.	Controller	\$104,601.46	\$342.96
Marshall, D.	Director, Regional Office	\$108,897.54	\$1,424.64
Martin, J.	VP, Logistics	\$144,101.40	\$422.44
Ramsay, G.	Director, Application Services	\$104,001.63	\$315.98
Sherwood, G.	VP, Retail	\$144,101.40	\$422.44
Tattle, W.	Lawyer	\$109,428.21	\$352.08
Tughan, W.	Director, Resource Protection	\$100,671.00	\$308.34
Wilcox, D.	VP, Merchandising	\$179,047.54	\$354.04
Wilson, M.	Director, IT Infrastructure	\$110,232.66	\$341.76
Wilson, T.	Director, Vintages	\$111,402.55	\$347.64
Yazejian, L.	Director, General Audit	\$100,671.00	\$308.34
Zachar, W.	Director, Employee Relations	\$101,218.26	\$335.52



# RESPONSIBILITY FOR FINANCIAL REPORTING

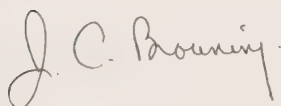
The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 9, 2000.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, meets periodically with management, the internal auditors, and the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on page 52, outlines the scope of the Auditor's examination and opinion.

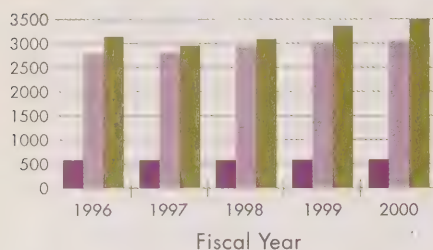
On behalf of management:



Alex Browning  
*Vice President, Finance & Administration*

# FINANCIAL OVERVIEW

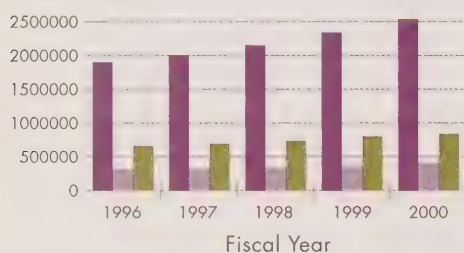
## Key Indicators: 1996-2000



■ LCBO Stores  
■ Permanent Employees  
■ Regular Products Listed

## Financial Indicators: 1996-2000

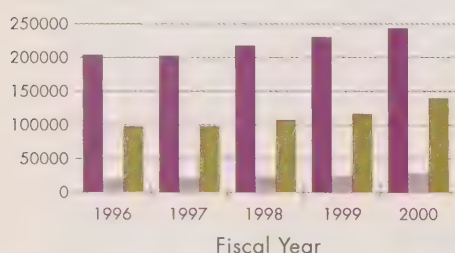
(values in \$000s)



■ Net Sales and Other Income  
■ Operating Expenses  
■ Net Income

## Operating Expenses: 1996-2000

(values in \$000s)



■ Salaries and Benefits  
■ Depreciation  
■ Other Expenses

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, of permanent employees and of regular products listed.

## Operations

	1996	1997	1998	1999	2000
Number of LCBO Stores	596	595	596	600	602
Number of Permanent Employees	2,803	2,828	2,934	3,014	3,074
Number of Regular Products Listed	3,149	2,960	3,098	3,366	3,496

The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

## Financial (values in \$000s)

	1996	1997	1998	1999	2000
Net Sales and Other Income	1,909,804	2,013,873	2,160,843	2,349,832	2,549,458
% change/previous year	5.60%	5.45%	7.30%	8.75%	8.50%
Operating Expenses	323,819	324,457	351,653	374,558	414,861
As a % of Net Sales & Other Income	16.96%	16.11%	16.27%	15.94%	16.27%
Net Income	666,717	701,030	744,904	809,425	845,694
As a % of Net Sales & Other Income	34.91%	34.81%	34.47%	34.45%	33.17%

Note: The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line listed in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the LCBO Sales Channel Summary on page 46.

## Breakdown of Operating Expenses (values in \$000s)

	1996	1997	1998	1999	2000
Salaries and Benefits	204,629	203,699	218,631	231,486	244,399
Depreciation	20,962	22,167	24,666	25,580	29,582
Other Expenses	98,228	98,591	108,356	117,492	140,880
Total Operating Expenses	323,819	324,457	351,653	374,558	414,861

The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

### Treasurer of Ontario

	1996	1997	1998	1999	2000
Remitted by the Liquor Control Board: on account of profits	680,000	730,000	745,000	780,000	800,000
Remitted by the Liquor Control Board: Ontario retail sales tax on sales through liquor	182,762	192,357	202,148	220,645	239,071
Remitted by the Alcohol and Gaming Commission:* on account of licence fees and permits	529,690	520,829	505,656	519,472	537,569
Remitted by others:** Ontario retail sales tax on sales through Brewers Retail stores and Ontario winery retail stores	157,046	157,582	160,321	168,281	177,406
Ontario retail sales tax on sales through agency stores	2,301	2,565	2,839	3,305	3,672
<b>Total</b>	<b>1,551,799</b>	<b>1,603,333</b>	<b>1,615,964</b>	<b>1,691,703</b>	<b>1,757,718</b>

\* The Alcohol and Gaming Commission of Ontario (AGCO), Brewers Retail Inc. and Ontario winery stores are separate, non-LCBO businesses.

\*\* Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

### Receiver General for Canada

	1996	1997	1998	1999	2000
Remitted by the Liquor Control Board: Excise taxes and Customs duties	235,022	239,058	247,413	249,639	267,137
Goods and Services Tax	60,344	64,672	68,642	66,192	69,718
Remitted by others: Excise taxes, GST and other duties/taxes	327,660	342,763	329,802	333,407	367,637
GST remitted on sales through agency stores	1,343	1,496	1,656	1,928	2,142
<b>Total</b>	<b>624,369</b>	<b>647,989</b>	<b>647,513</b>	<b>651,166</b>	<b>706,634</b>

### Ontario Municipalities

	1996	1997	1998	1999	2000
Remitted by the Liquor Control Board: grants in lieu of realty and business taxes	6,188	5,816	5,897	3,680	3,569
<b>Total Revenue Payments</b>	<b>2,182,356</b>	<b>2,257,138</b>	<b>2,269,374</b>	<b>2,346,549</b>	<b>2,467,921</b>

Note: These amounts do not include corporation realty and business taxes paid by the distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees and agency stores on sales of beverage alcohol is excluded from these figures. The 2000 figures for Remitted by others are slightly understated due to several brewers not reporting financial information at the time of publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.



## Share of Volume Sales



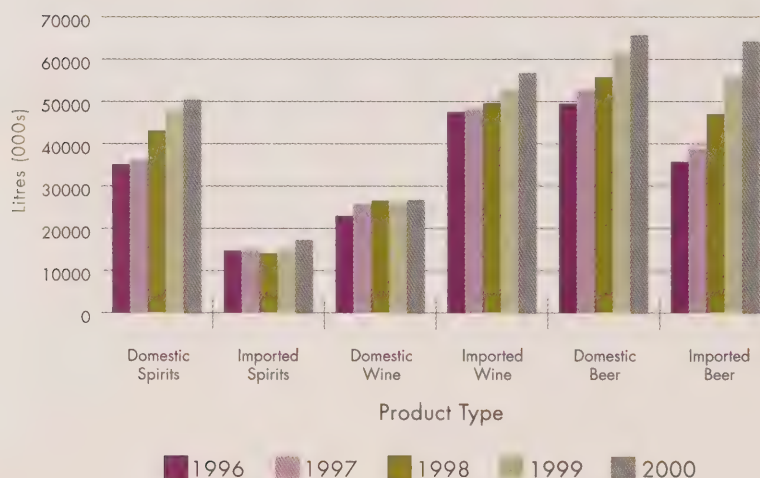
## LCBO Volume Sales (in 000s Litres)

Product Type	1996	1997	1998	1999	2000
Domestic Spirits	30,585	30,615	31,015	31,834	33,310
Domestic Spirit Coolers	4,669	5,556	12,150	16,168	17,361
Imported Spirits	14,877	15,097	14,059	15,175	17,491
<b>Total Spirits</b>	<b>50,131</b>	<b>51,268</b>	<b>57,224</b>	<b>63,177</b>	<b>68,162</b>
Domestic Wine	22,208	24,957	25,845	25,795	26,523
Domestic Wine Coolers	903	895	718	544	489
Imported Wine	47,671	48,328	49,617	52,952	57,010
<b>Total Wine</b>	<b>70,782</b>	<b>74,180</b>	<b>76,180</b>	<b>79,291</b>	<b>84,022</b>
Domestic Beer	49,584	52,861	55,763	61,377	65,618
Domestic Beer Coolers	27	20	24	38	339
Imported Beer	35,873	39,021	47,082	55,827	64,451
<b>Total Beer</b>	<b>85,484</b>	<b>91,902</b>	<b>102,869</b>	<b>117,242</b>	<b>130,408</b>
<b>Total Domestic</b>	<b>107,976</b>	<b>114,904</b>	<b>125,515</b>	<b>135,757</b>	<b>143,640</b>
<b>Total Imported</b>	<b>98,421</b>	<b>102,446</b>	<b>110,758</b>	<b>123,954</b>	<b>138,952</b>
<b>Total</b>	<b>206,397</b>	<b>217,350</b>	<b>236,273</b>	<b>259,710</b>	<b>282,592</b>

Product Type	1996	1997	1998	1999	2000
Sales by Ontario Winery Stores	13,164	14,411	14,838	13,878	14,074
Sales by Brewers Retail & On-site Stores	670,539	653,106	654,284	654,413	663,806

Note: LCBO beer sales figures include LCBO sales to Brewers Retail Inc. The 2000 figures for sales by Brewers Retail and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication.

## LCBO Volume Sales by Product Type: 1996-2000



Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

## LCBO Value Sales (in \$000s)

Product Type	1996	1997	1998	1999	2000
Domestic Spirits	671,080	680,092	691,165	717,270	739,313
Domestic Spirit Coolers	22,148	27,893	61,093	80,716	84,579
Imported Spirits	340,638	354,929	358,363	391,872	435,093
<b>Total Spirits</b>	<b>1,033,866</b>	<b>1,062,914</b>	<b>1,110,621</b>	<b>1,189,858</b>	<b>1,258,985</b>
Domestic Wine	158,888	178,563	190,809	201,723	211,595
Domestic Wine Coolers	3,347	3,209	2,612	1,976	1,797
Imported Wine	435,845	469,803	503,290	559,624	635,112
<b>Total Wine</b>	<b>598,080</b>	<b>651,575</b>	<b>696,711</b>	<b>763,323</b>	<b>848,504</b>
Domestic Beer	145,816	160,544	170,538	194,149	208,882
Domestic Beer Coolers	87	67	83	144	1,035
Imported Beer	107,275	118,567	145,326	174,284	210,815
<b>Total Beer</b>	<b>253,178</b>	<b>279,178</b>	<b>315,947</b>	<b>368,577</b>	<b>420,732</b>
<b>Total Domestic</b>	<b>1,001,366</b>	<b>1,050,368</b>	<b>1,116,300</b>	<b>1,195,978</b>	<b>1,247,201</b>
<b>Total Imported</b>	<b>883,758</b>	<b>943,299</b>	<b>1,006,979</b>	<b>1,125,780</b>	<b>1,281,020</b>
<b>Non Liquor</b>	<b>2,059</b>	<b>3,124</b>	<b>3,479</b>	<b>3,914</b>	<b>5,389</b>
<b>Total</b>	<b>1,887,183</b>	<b>1,996,791</b>	<b>2,126,758</b>	<b>2,325,672</b>	<b>2,533,610</b>

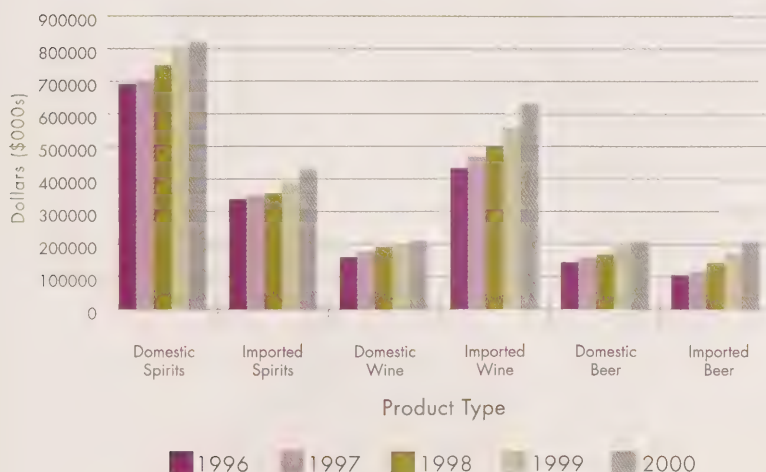
Product Type	1996	1997	1998	1999	2000
Sales by Ontario Winery Stores	95,227	106,257	114,805	111,765	118,219
Sales by Brewers Retail	1,809,030	1,804,847	1,858,377	1,937,004	2,021,111

Note: Value sales listed above for the LCBO and Ontario winery stores consist of net sales. Sales values for Brewers Retail Inc. consist of net sales plus GST. Category totals provided here include sales through Vintages and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report.

## Share of Value Sales



## LCBO Value Sales by Product Type: 1996-2000



Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

## Product Listings

	1996	1997	1998	1999	2000
<b>Domestic</b>					
Spirits	540	463	516	539	518
Wine	534	533	518	538	536
Beer	306	330	346	385	403
<b>Imported</b>					
Spirits	621	484	542	601	586
Wine	965	938	963	1,085	1,192
Beer	183	212	213	218	261
<b>Total Regular Listings</b>	<b>3,149</b>	<b>2,960</b>	<b>3,098</b>	<b>3,366</b>	<b>3,496</b>
Vintages Wines and Spirits	2,368	2,744	3,037	3,235	3,569
Duty-Free Listings	207	205	213	210	235
Consignment Warehouse and Private Stock	4,249	4,573	5,240	5,241	6,106
<b>Total Product Listings</b>	<b>9,973</b>	<b>10,482</b>	<b>11,588</b>	<b>12,052</b>	<b>13,406</b>

Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

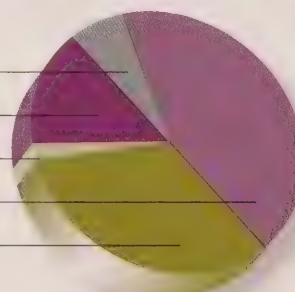
## LCBO Sales Channel Summary (in \$000s)

	1996	1997	1998	1999	2000
LCBO Total Sales	2,215,523	2,342,998	2,493,935	2,725,858	2,967,710
Brewers Retail Total Sales	2,060,219	2,075,664	2,114,467	2,214,918	2,324,225
Winery Retail Stores Total Sales	113,320	126,553	136,618	133,001	140,681
<b>Other Channels:</b>					
Legal	603,701	801,799	861,708	888,670	941,465
Homemade	66,612	59,945	60,918	63,567	59,070
De-alcoholized Beer	20,117	19,217	17,708	23,872	22,314
Illegal	736,477	620,175	583,780	542,896	455,801
<b>Grand Total</b>	<b>5,815,969</b>	<b>6,046,351</b>	<b>6,269,134</b>	<b>6,592,782</b>	<b>6,911,266</b>

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and Brewers Retail figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the chart below.

## Value by Sales Channel

Illegal	7%
Other Legal	15%
Winery Stores	2%
LCBO	43%
Brewers Retail	33%



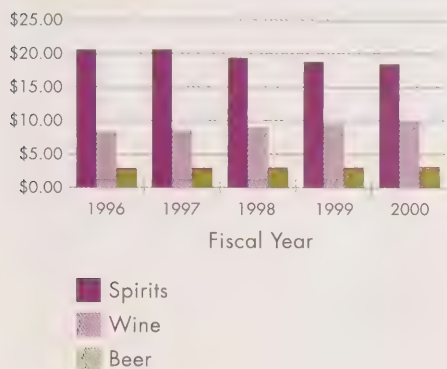


## Average LCBO Retail Prices

Product Type	1996	1997	1998	1999	2000
Spirits	\$20.62	\$20.65	\$19.41	\$18.83	\$18.47
Wine	\$8.45	\$8.67	\$9.15	\$9.63	\$10.10
Beer	\$2.96	\$3.03	\$3.07	\$3.14	\$3.23
Average Transaction Value per Customer	\$25.98	\$26.69	\$27.40	\$28.07	\$29.55

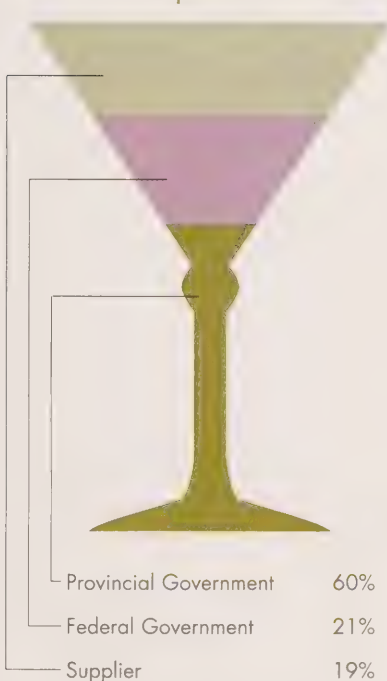
Note: Retail prices exclude GST and PST.

## Average Retail Prices per Litre 1996-2000



## Revenue Distribution

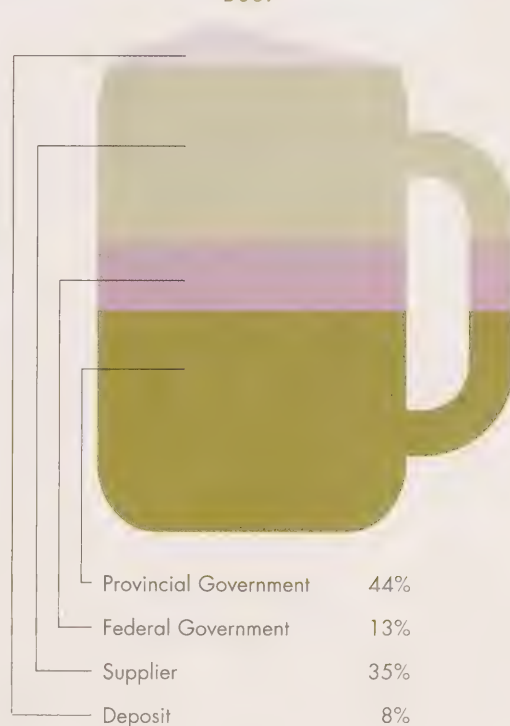
### Spirits



### Wine



### Beer



The following table shows LCBO volume sales by category for fiscal 1999-2000.

### Product Category Share

Canadian Spirits	1996	1997	1998	1999	2000
Canadian Whisky	40.7%	39.9%	33.5%	30.4%	29.9%
Canadian Rum	18.6%	18.3%	15.6%	14.5%	14.5%
Canadian Vodka	16.6%	17.1%	15.4%	14.3%	14.2%
Spirit Coolers	13.3%	15.4%	28.1%	33.5%	34.3%
Canadian Dry Gin	3.6%	3.2%	2.5%	2.2%	2.1%
Other	7.2%	6.1%	4.9%	5.1%	5.0%

### Imported Spirits

Scotch	23.3%	23.0%	25.1%	23.8%	22.0%
Liqueur	16.6%	17.9%	19.1%	18.7%	18.2%
Miscellaneous Liquors	12.7%	11.9%	13.9%	13.2%	13.5%
Vodka	10.4%	11.0%	12.4%	13.9%	15.5%
French Brandy	8.1%	8.0%	9.3%	9.4%	9.0%
Spirit Coolers	11.1%	10.1%	0.9%	0.1%	0.6%
Other	17.8%	18.1%	19.3%	20.9%	21.2%

### Canadian Wines

White Table	56.1%	51.3%	49.2%	48.6%	48.4%
Red Table	17.0%	18.3%	20.5%	22.3%	24.1%
7% Sparkling	6.8%	6.3%	6.0%	6.1%	6.2%
Sherry	5.8%	5.0%	5.5%	4.5%	4.4%
Wine Coolers	3.9%	3.5%	3.7%	3.8%	3.1%
Other	10.4%	15.6%	15.1%	14.7%	13.8%

### Imported Wines

White Table	50.4%	46.7%	43.8%	42.3%	39.6%
Red Table	36.6%	39.0%	42.1%	43.2%	44.4%
Champagne	3.7%	3.7%	3.8%	4.1%	4.6%
Sherry	2.2%	2.2%	2.0%	1.3%	1.1%
Other	7.1%	8.4%	8.3%	9.1%	10.3%

### Canadian Beer

Ontario Beer	95.8%	94.3%	93.5%	92.4%	91.3%
Other Canadian Beer	4.2%	5.7%	6.5%	7.6%	8.7%

### Imported Beer

U.S. Beer	45.9%	42.8%	42.1%	41.8%	36.9%
Other Imported Beer	53.7%	56.9%	57.6%	57.9%	62.9%
Saké	0.4%	0.3%	0.3%	0.3%	0.2%

The following table shows detailed sales of wine by volume and value (LCBO sales only).

**Volume** (000s litres)

Product Type	1996	1997	1998	1999	2000
Red Wine	20,911	23,106	25,570	27,875	31,012
White Wine	36,313	35,226	34,093	34,483	34,913
Rosé Wine	1,677	2,108	2,493	2,853	3,264
Sparkling Wine	3,989	4,035	3,969	4,121	4,704
Fortified Wine	3,764	3,602	4,083	3,349	3,373
Wine Coolers	903	1,094	1,004	1,019	1,594
Other Wine	1,914	3,627	3,336	3,820	3,321
VQA Wines*	1,660	2,494	2,534	2,718	3,158

**Value** (\$000s)

Product Type	1996	1997	1998	1999	2000
Red Wine	190,371	223,586	258,225	296,921	347,051
White Wine	284,955	287,892	288,217	301,198	312,901
Rosé Wine	12,846	16,341	19,983	23,490	27,699
Sparkling Wine	42,161	44,099	46,598	52,373	70,310
Fortified Wine	33,388	33,143	40,035	32,277	32,995
Wine Coolers	3,342	4,923	4,660	4,812	9,185
Other Wine	14,190	21,072	16,382	26,106	25,293
VQA Wines*	20,075	27,671	31,146	34,827	41,259

\* VQA wine sales are reported in a separate consolidated total and also within each wine product category.

Note: Sales figures of wine by volume and value exclude Private Stock sales.



The following table shows LCBO Spirits sales by country of origin for fiscal 1999-2000.

### Spirits 1999-2000

Country Name	NET SALES	LITRES
Canada	817,453,290	50,615,452
Great Britain	138,683,352	5,252,108
France	67,489,839	2,174,210
U.S.A.	38,395,958	2,073,175
Ireland	42,184,636	1,593,884
Sweden	30,613,091	1,529,689
Italy	28,429,874	1,244,574
Mexico	25,889,327	1,034,032
Finland	11,927,703	564,156
Russian Federation	6,112,476	285,123
Germany	5,910,000	235,061
Poland	4,812,307	220,228
Barbados	3,672,890	168,691
Netherlands	3,215,349	164,082
Jamaica	3,575,092	148,839
Greece	3,167,334	142,070
South Africa	2,322,919	102,193
Switzerland	1,998,517	65,180
Cuba	1,058,535	42,715
Spain	858,543	38,012
Portugal	803,973	29,980
Hungary	670,319	29,584
Bermuda	841,852	28,425
Croatia	585,142	22,194
Ukraine	486,163	19,271
Lebanon	395,148	15,994
Venezuela	300,257	14,918
Bahamas	302,529	14,396
Denmark	317,189	12,899
India	280,001	12,203
People's Republic Of China	185,237	9,645
Puerto Rico	146,854	9,228
Austria	268,906	6,985
Chile	140,509	5,475
Guyana	147,401	4,201

### Spirits continued

Country Name	NET SALES	LITRES
Belgium	128,792	3,831
Brazil	71,612	2,956
Israel	63,462	2,385
Czech Republic	57,942	2,054
Philippines	29,267	1,341
Australia	33,698	772
Bulgaria	13,885	468
Norway	13,965	391
Macedonia	5,494	264
Japan	2,687	201
Haiti	3,816	114
Estonia	356	12
Antigua	67	2
<b>Total</b>	<b>1,244,067,555</b>	<b>67,943,660</b>

The following table shows LCBO Wine sales by country of origin for fiscal 1999-2000.

### Wine 1999-2000

Country Name	NET SALES	LITRES
Canada	209,267,300	26,941,445
France	202,357,242	17,541,570
Italy	124,376,481	12,550,930
U.S.A.	89,168,898	7,941,546
Australia	58,562,042	4,369,863
Chile	34,001,313	3,351,397
Germany	20,095,499	1,993,792
Spain	19,352,872	1,586,258
Portugal	18,594,058	1,703,840
South Africa	11,334,171	1,092,209
Greece	5,104,081	662,732
Argentina	4,955,674	488,214
Hungary	4,180,753	572,914
New Zealand	3,867,003	250,082
Bulgaria	3,466,968	471,788
Great Britain	1,272,898	210,159
Croatia	752,915	94,050
Austria	724,681	50,963
Israel	597,115	62,812
Romania	410,930	55,803
Denmark	300,177	26,862
Jamaica	227,035	25,814
Macedonia	192,956	26,933
Mexico	183,003	18,547
Czech Republic	135,783	19,136
Cyprus	125,166	14,593
Uruguay	119,312	11,047
Japan	98,371	10,229
Switzerland	71,502	3,548
Slovenia	69,626	8,018
Republic of Moldova	60,667	5,788
Federal Republic of Yugoslavia	56,836	7,420
Finland	36,659	3,435
Poland	34,806	2,459
Algeria	21,745	2,478
Malta	14,053	1,189
Belgium	10,033	533
Morocco	1,768	175
Lebanon	1,474	35
Peru	1,362	90
Turkey	117	18
<b>Total</b>	<b>814,205,345</b>	<b>82,180,710</b>

The following table shows LCBO Beer sales by country of origin for fiscal 1999-2000.

### Beer 1999-2000

Country Name	NET SALES	LITRES
Canada	204,957,519	63,886,456
U.S.A.	54,541,328	20,359,327
Netherlands	40,186,401	9,710,086
Mexico	36,465,966	9,267,629
Germany	14,626,403	4,149,527
Great Britain	12,069,067	3,420,094
Ireland	9,111,908	2,206,134
Poland	4,859,128	1,440,810
Denmark	4,261,758	1,332,181
Czech Republic	2,752,663	808,081
Belgium	2,005,743	404,396
Japan	1,939,746	454,167
People's Republic Of China	897,271	246,245
Jamaica	813,847	217,297
Trinidad	709,300	182,182
Italy	551,442	151,693
Portugal	426,526	114,760
South Africa	413,734	132,377
New Zealand	349,652	101,352
Singapore	210,573	64,375
Croatia	189,203	50,281
Greece	151,484	35,690
Ukraine	123,535	37,724
Cyprus	71,444	16,965
Kenya	62,205	16,841
India	49,556	11,708
Spain	44,828	12,667
Cuba	27,109	6,534
France	9,091	1,621
Israel	7,963	2,089
Norway	7,056	1,187
Brazil	6,240	2,036
Austria	2	1
<b>Total</b>	<b>392,899,689</b>	<b>118,844,512</b>

Note: Net value represents net sales, excluding Private Stock sales. In fiscal 1999-2000, the LCBO sold products from 64 different countries.

# AUDITOR'S REPORT

*To the Liquor Control Board of Ontario and to the Minister  
of Consumer and Commercial Relations*

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2000 and the statements of income and retained income and of cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario  
June 9, 2000

Erik Peters, FCA  
Provincial Auditor

## BALANCE SHEET

As at March 31, 2000

<b>Assets</b> (in \$000s)	<b>2000</b>	<b>1999</b>
<b>Current</b>		
Cash and short-term investments (Note 3)	31,133	24,578
Accounts receivable, trade and others	13,114	6,061
Inventories	255,398	236,292
Prepaid expenses	9,079	8,843
	<b>308,724</b>	<b>275,774</b>
<b>Long-term</b>		
Capital assets (Note 4)	172,124	148,183
	<b>480,848</b>	<b>423,957</b>

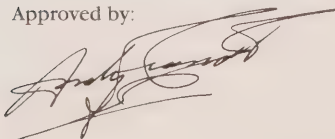
## Liabilities and Retained Income

Accounts payable and accrued liabilities	221,226	210,029
Retained income	259,622	213,928
	<b>480,848</b>	<b>423,957</b>

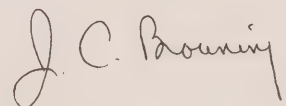
## Commitments (Note 5)

See accompanying notes to financial statements.

Approved by:



Chair and Chief Executive Officer



Vice President  
Finance & Administration



## STATEMENT OF INCOME AND RETAINED INCOME

Year ended March 31, 2000

	2000	1999
Sales and other income	2,549,458	2,349,832
Costs and expenses		
Cost of sales	1,288,903	1,165,849
Retail stores and marketing	303,272	276,554
Warehousing and distribution	41,888	37,917
Administration	40,119	34,507
Amortization	29,582	25,580
	<b>1,703,764</b>	<b>1,540,407</b>
Net income for the year	845,694	809,425
Retained income, beginning of year	213,928	184,503
	<b>1,059,622</b>	<b>993,928</b>
Deduct: Dividend paid to Province of Ontario	795,000	776,000
Payment to municipalities on behalf of the Province of Ontario (Note 9)	5,000	4,000
	<b>800,000</b>	<b>780,000</b>
<b>Retained income, end of year</b>	<b>259,622</b>	<b>213,928</b>

See accompanying notes to financial statements.

## STATEMENT OF CASH FLOWS

Year ended March 31, 2000

	2000	1999
<b>Cash Provided from Operations</b>		
Net income	845,694	809,425
Amortization	29,582	25,580
Loss (Gain) on sale of capital assets	920	(540)
	<b>876,196</b>	<b>834,465</b>
Change in working capital	(15,198)	(8,651)
	<b>860,998</b>	<b>825,814</b>
<b>Cash used for investment activities</b>		
Purchase of capital assets	(54,456)	(40,958)
Proceeds from sale of capital assets	13	693
	<b>(54,443)</b>	<b>(40,265)</b>
<b>Cash used for financing activities</b>		
Dividend paid to Province of Ontario	(795,000)	(776,000)
Payment to municipalities on behalf of the Province of Ontario	(5,000)	(4,000)
	<b>(800,000)</b>	<b>(780,000)</b>
Increase in cash during the year	6,555	5,549
Cash and short-term investments, beginning of year	24,578	19,029
Cash and short-term investments, end of year	31,133	24,578

See accompanying notes to financial statements.

## 1. NATURE OF THE CORPORATION

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Consolidated Revenue Fund in the form of a dividend.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Accounting

The Board's financial statements are prepared in accordance with generally accepted accounting principles.

### (b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

### (c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

## 3. CASH AND SHORT-TERM INVESTMENTS

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

Cash and short-term investments include \$8.0 million (1999 - \$15.5 million) of investments maturing within one year, yielding 5.27% (1999 - 5.1%) on average, with a market value that approximates carrying value.

## 4. CAPITAL ASSETS

	2000			1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
(\$000's)				
Land	13,835	—	13,835	13,848
Buildings	253,343	171,472	81,871	79,074
Furniture and fixtures	33,041	26,529	6,512	5,663
Leasehold improvements	92,776	62,863	29,913	22,922
Computer equipment	73,771	33,778	39,993	26,676
	466,766	294,642	172,124	148,183

## 5. LEASE COMMITMENTS

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	(in \$000's)
2001	26,789
2002	23,161
2003	19,881
2004	16,432
2005	13,941
Thereafter	79,654
	<hr/> 179,858 <hr/>

## 6. PENSION PLAN

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Board's expense related to the PSPF and the OPSEU Pension Fund for the year was \$9.4 million (1999 - \$9.9 million) and is included in Costs and expenses in the Statement of Income and Retained Income.

## 7. HEDGING

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2000 the Board had \$1,441,000 (1999 - \$1,485,000) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian Chartered banks and Canadian subsidiaries of major foreign banks.

## 8. YEAR 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the Board, including those related to its customers, suppliers, or other third parties, have been fully resolved.

## 9. PAYMENT TO MUNICIPALITIES

The Board was directed by Cabinet to contribute \$5.0 million in 1999-2000 (1998-99 - \$4.0 million), directly to municipalities, based upon a funding formula developed by the Ministry of the Environment (MOE). This contribution is to support MOE's waste diversion program. Cabinet further directed that \$4.0 million be paid in fiscal year 2000-2001.



# MEMBERS OF THE LCBO BOARD

*Members of the LCBO Board, like those of other provincial government agencies, boards and commissions, are appointed by the sitting government through Orders-in-Council. Appointments, up to five years, are sometimes renewed.*



Photo: Dan Lim

*Left to right are Board Members Dick Dolphin, Richard Ling, Chantal Haas, John Hopper, Merle Jacobs and John Lacey.*

**Andrew S. Brandt:**

Appointed Chair and Chief Executive Officer February 6, 1991. Term expires February 2003.

Re-appointed in January 2000 for a fourth three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as Mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful wholesale and retail musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. One of Canada's top 200 CEOs, according to the *Financial Post* magazine, he was named Business Support Person of the Year by the Ontario Grape and Wine Festival in 1997.

He has also been appointed an Officer of France's Ordre du Mérite Agricole and a Chevalier in the Confrérie des Chevaliers du Tastevin, and was admitted to the roll of the Keepers of the Quaich in Scotland.

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**Dick Dolphin:**

Appointed October 7, 1997. Term expires October 2000.

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A Fellow of the Institute of Chartered Accountants of Ontario, Mr. Dolphin retired in 1997 from financial services giant KPMG, for whom he'd worked for 23 years. He spent many of those years as managing partner of its Thunder Bay office, practising his specialty of municipal finance. Mr. Dolphin spent six years as a director of the Thunder Bay Chamber of Commerce, including one year as president, and is currently Chair and CEO of the Ontario Chamber of Commerce. He served on Thunder Bay's St. Joseph's Hospital Board in several capacities between 1986 and 1991, including a term as Chair of its Finance and Audit Committee. He was also a member of the Port Arthur Rotary Club from 1984 to 1997. Mr. Dolphin now resides in Peterborough, where he owns and operates the consulting firm Dick Dolphin & Associates. He also serves as Chair of City of Peterborough Holdings Inc.

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**Chantal Haas:**

Appointed Vice Chair May 15, 1995. Term expires May 2001.

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The first woman to hold the position of Vice Chair of the LCBO, Ms. Haas is now serving her second three-year term. The Managing Director and National Public Relations Director for Bradson Staffing Services Inc., she led an executive committee in merging two long-standing organizations - namely the Association of Professional Placement Agencies & Consultants (APPAC) and Employment & Staffing Services Association of Canada (ESSAC) - and is National President-elect of the newly created organization ACSESS (Association of Career Search, Employment and Staffing Services). Ms. Haas has inspired many young women entrepreneurs through her extensive involvement with the Step Ahead One-on-One Mentoring Program. An active participant in Toronto's French community, she was the first woman to serve two terms as President of *Le Cercle Canadien de Toronto*. In 1998, she was elected first woman president of the French Chamber of Commerce (Ontario) and is now serving her third term. In 1997 she was appointed to the Executive Committee of the Economic Development Fund, Office of Francophone Affairs. She is an active

member of the Women Entrepreneurs of Canada and appears in the International, Canada and Ontario Who's Who.

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**John C. Hopper:**

Appointed September 8, 1997. Term expires September 2000.

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A native of Ottawa, Mr. Hopper began work in automobile sales there in 1963. He moved to North Bay in 1971 to establish John C. Hopper Pontiac Buick, and is today President and Dealer Principal of Hopper Automobile Ltd., and President of Saturn of North Bay. He was a founding member of the North Bay Automobile Dealers Association and the Northern Ontario Automobile Dealers Association, and past president of the Ontario Automobile Dealers Association. A former North Bay City councillor, he has a long history of community service: he is a member of North Bay Masonic Lodge; a member and past president of both the Rorab Shrine Club and North Bay Kiwanis Club; a member of the Northern Ontario Cancer Research Foundation; a member of the Board of Governors of Thorneloe University, which is federated with Laurentian University; and he chaired the \$7,000,000 fundraising campaign for North Bay's new General Hospital, while also serving on its Advisory Board. He was the Kiwanis Club's Citizen of the Year in 1993. In 1998, he was elected a Mel Osbourne Fellow to the Kiwanis Foundation of Canada.

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**Merle A. Jacobs:**

Appointed December 17, 1997. Term expires December 2000.

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Dr. Jacobs began her career as a nurse, eventually becoming a nurse manager in the department of psychiatry at North York Branson Hospital. Over nearly 30 years in the field, she has also pursued her education, and has now completed a Diploma in Nursing, a Bachelor of Arts degree, a Master's, and a Ph.D. in Sociology at York University. Her professional experience and studies have shared a focus on mental health, as does much of her extensive volunteer work. She has maintained her skills as a Registered Nurse by working at the Women's Inpatient Unit of the Centre for Addiction and Mental Health. She has also served on the Board of Toronto's Queen Street Mental Health Centre and is an executive member of the Registered Nurses Association of Ontario's

Mental Health Interest Group. She is a director of Roots Cultural Foundation and Royal Business Training Centre and teaches at Ryerson Polytechnic University and York University. As a practising nurse psychotherapist and owner of The Lawrence Centre, Dr. Jacobs has also developed her business planning and budgeting skills, as well as her knowledge of human resources issues.

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**John S. Lacey:**

Appointed June 26, 1996. Term expires June 2002.

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Mr. Lacey is a veteran of the retail, hospitality and communications industries, with nearly 35 years of experience with companies such as Oshawa Group Ltd., WIC Western International Communications Ltd., Scott's Hospitality Inc., Molson, Loblaw's, and the Holiday Inn and Marriott hotel chains. Now non-executive Chairman of Loewen Group Inc., Mr. Lacey is a graduate of the Harvard Business School who emigrated to Canada in 1978 and became a Canadian citizen in 1983. Mr. Lacey is also a Director of Telus and Clarica, and Chairman of Doncaster Racing Ltd. His community interests include the Centre for Studies of Children at Risk, which is affiliated with McMaster University and the Chedoke-McMaster Hospitals.

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**Richard Ling:**

Appointed September 8, 1997. Term expires September 2000.

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Before becoming Resident Principal of Borden Ladner Gervais LLP's York Region Office, lawyer Richard Ling was Senior Partner in the firm Ling & Wong; Managing Director of Lehndorff Asia Inc.; and Resident Counsel for Graham & James in Beijing. The Chinese-born Willowdale resident speaks five languages, and is well versed in banking, real estate and corporate practice. He is a Director of Markham Energy Corporation and a former Governor of Sheridan College and a former Director of St. Michael's Hospital Foundation Board; the Richmond Hill & Markham Chinese Business Association; Mon Sheong Foundation for the Aged; and the Chinese Cultural Centre of Greater Toronto.



# LCBO

# USEFUL FACTS

*For the fiscal year ended March 31, 2000, unless otherwise noted*

## THE MARKETPLACE

602 Number of LCBO stores serving communities across Ontario

107 Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store

831 Number of Beer Stores, Ontario winery stores, on-site distillery and brewery outlets and privately operated duty-free stores in Ontario

42.9 Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO

\$6.9 billion Total estimated value of Ontario's beverage alcohol market

\$456 million Estimated value of Ontario's illegal alcohol market

## OUR STORES

69 Number of LCBO stores offering more than 2,500 brands for sale

196 Number of LCBO stores offering 1,500-2,500 brands for sale

159 Number of LCBO stores offering 1,000-1,500 brands for sale

150 Number of LCBO stores offering 500-1,000 brands for sale

28 Number of LCBO stores offering fewer than 500 brands for sale

9,200 Number of product tastings conducted in LCBO stores in 1999-2000

7 Number of days per week most LCBO stores are open

54 Number of LCBO stores that received perfect 100 per cent scores from mystery shoppers between December 1, 1999 and March 31, 2000

85.7 million Total number of transactions in LCBO stores in 1999-2000

23.3 Percentage of all LCBO transactions paid by debit card

20.9 Percentage of all LCBO transactions paid by credit card

## OUR FINANCIAL PERFORMANCE

\$2.5 billion The LCBO's net sales and other income in 1999-2000

\$800 million Dividend the LCBO transferred to the Government of Ontario for 1999-2000 (excluding taxes)

\$2.325 billion Amount the LCBO has transferred to the Consolidated Revenue Fund the last three fiscal years combined (excluding taxes)

357 Percentage return on taxpayers' equity in 1999-2000

33 The LCBO's profit margin, expressed as a percentage, in 1999-2000

16.3 The LCBO's operational expenses as a percentage of net sales for 1999-2000 (down from 19 per cent in 1993-94)

\$239 million Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) in 1999-2000

\$337 million Amount the LCBO transferred to the federal government in GST, excise taxes and Customs duties in 1999-2000

\$23 million Amount the LCBO spent on capital improvements to its stores (renovations, relocations, etc) in 1999-2000

1 Percentage of customers in a February 2000 survey who said they were dissatisfied with service in LCBO stores





# STATISTICAL INSERT

*for LCBO Annual Report, Fiscal 1999-2000*

## Product Listings

<b>Domestic</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Canadian Whisky	153	145	160	168	158
Canadian Blended Rums	97	95	112	123	105
Canadian Gin	27	21	20	22	22
Canadian Vodka	76	69	70	75	70
Canadian Brandy	9	7	6	6	6
Canadian Blended Brandy	12	8	9	9	12
Canadian Spirit Coolers	41	45	56	46	51
Fruit Spirits	2	2	1	1	0
Miscellaneous Liquors	29	7	22	23	24
Canadian Liqueurs	68	52	48	53	55
Ontario Wines	495	490	465	477	465
Ontario Wine Coolers	13	10	5	4	14
Other Canadian Wines	14	21	27	39	43
Canadian Cider	12	12	21	18	14
Canadian Beer (incl. Beer Coolers)	306	330	346	385	403
Alcohol	9	0	3	4	3
Miniatures	14	9	6	6	9
Bitters	3	3	3	3	3
	<b>1,380</b>	<b>1,326</b>	<b>1,380</b>	<b>1,462</b>	<b>1,457</b>
<b>Imported</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Scotch Whisky	133	108	127	135	108
Irish Whiskey	12	6	8	10	11
American Whiskey	15	17	21	21	21
Gin	16	13	14	16	17
Rum	20	14	18	16	20
Vodka	39	31	38	41	47
Tequila	12	12	9	10	19
Brandy	92	66	72	107	100
Fruit Spirits	4	2	4	2	3
Miscellaneous Liquors	67	53	67	78	86
Liqueurs	128	116	134	135	125
Wines	965	936	958	1,080	1,181
Beer and Sake	183	212	210	216	256
Miniatures	57	22	19	20	18
Coolers	19	18	9	7	17
Bitters	7	8	10	10	10
Total Regular Listings	3,149	2,960	3,098	3,366	3,496
Vintages Wines and Spirits	2,368	2,744	3,037	3,235	3,569
Duty-Free Listings	207	205	213	210	235
Consignment Warehouse and Private Stock	4,249	4,573	5,240	5,241	6,106
<b>Total Product Listings</b>	<b>9,973</b>	<b>10,482</b>	<b>11,588</b>	<b>12,052</b>	<b>13,406</b>

Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

**Sales Channel Summary (value in \$000s)**

<b>LCBO</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Retail Sales	1,827,840	1,923,750	2,022,638	2,209,024	2,390,949
Licensee Sales	297,233	314,652	347,083	370,496	396,879
Agency Store Sales	20,329	22,643	25,059	29,180	32,420
Duty-Free/Warehouse	15,108	17,349	17,318	20,696	34,454
Duty-Free/LCBO	11,425	12,156	13,367	13,028	303
BRI Sales	40,150	48,920	64,891	80,438	109,692
Other Sales	3,438	3,528	3,579	2,996	3,013
<b>Total</b>	<b>2,215,523</b>	<b>2,342,998</b>	<b>2,493,935</b>	<b>2,725,858</b>	<b>2,967,710</b>

**Brewers Retail**

Retail & Licensee Sales	2,060,219	2,075,664	2,114,467	2,214,918	2,324,225
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**Winery Stores**

Retail Sales	113,320	126,553	136,618	133,001	140,681
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**Other Channels****Legal:**

Cross-Border Exempt	148,305	141,372	153,479	136,213	155,818
Cross-Border Declared	2,333	2,524	3,054	3,862	3,124
Brew Pubs	2,496	1,467	1,737	1,652	1,950
Wine Pubs	1,558	2,904	3,952	4,233	4,722
U-Brew Beer	114,127	151,482	149,534	157,633	163,959
U-Brew Wine	334,882	502,050	549,952	585,077	611,892
<b>Total</b>	<b>603,701</b>	<b>801,799</b>	<b>861,708</b>	<b>888,670</b>	<b>941,465</b>

**Homemade:**

Wine	51,638	43,823	44,071	45,807	40,597
Beer	14,974	16,122	16,847	17,760	18,473
<b>Total</b>	<b>66,612</b>	<b>59,945</b>	<b>60,918</b>	<b>63,567</b>	<b>59,070</b>

**De-alcoholized Beer**

	20,117	19,217	17,708	23,872	22,314
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**Illegal:**

Smuggling	454,001	421,443	393,991	353,344	279,883
Wine Manufacturing	282,476	198,732	189,789	189,552	175,918
<b>Total</b>	<b>736,477</b>	<b>620,175</b>	<b>583,780</b>	<b>542,896</b>	<b>455,801</b>

<b>Grand Total</b>	<b>5,815,969</b>	<b>6,046,351</b>	<b>6,269,134</b>	<b>6,592,782</b>	<b>6,911,266</b>
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Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. Brewers Retail Inc. and Winery Store sales data were supplied by the Brewers of Ontario and individual Ontario wineries.



## Retail Price Breakdowns

### Spirits

Examples as at March 31, 2000  
for 750 mL bottle in Canadian Dollars

	Imported U.S.	Imported Non - U.S.	Domestic
Payment to Supplier	\$4.0542	\$4.0492	\$4.0653
Federal Excise Tax	\$3.3198	\$3.3198	\$3.3198
Federal Import Duty	\$0.0000	\$0.0148	\$0.0000
Freight	\$0.0258	\$0.2208	\$0.0467
<b>Total Landed Cost</b>	<b>\$7.3998</b>	<b>\$7.6046</b>	<b>\$7.4318</b>
LCBO Mark-up	\$10.7371	\$11.0267	\$10.2559
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0440	\$0.0111	\$0.0310
<b>Basic Price</b>	<b>\$18.49</b>	<b>\$18.95</b>	<b>\$18.03</b>
Goods and Services Tax	\$1.29	\$1.33	\$1.26
Provincial Retail Sales Tax	\$2.22	\$2.27	\$2.16
<b>Consumer Price</b>	<b>\$22.00</b>	<b>\$22.55</b>	<b>\$21.45</b>

#### Revenue Distribution

Supplier (including freight)	\$4.08	\$4.27	\$4.11
Government of Canada	\$4.61	\$4.66	\$4.58
Government of Ontario	\$13.31	\$13.62	\$12.76

### Wines

Examples as at March 31, 2000  
for 750 mL bottle in Canadian Dollars

	Imported U.S.	Imported Non - U.S.	Domestic 100% Ont.
Payment to Supplier	\$2.6400	\$2.6400	\$2.6400
Federal Excise Tax	\$0.3842	\$0.3842	\$0.3842
Federal Import Duty	\$0.0000	\$0.0281	\$0.0000
Freight	\$0.1669	\$0.2038	\$0.0000
<b>Total Landed Cost</b>	<b>\$3.1911</b>	<b>\$3.2561</b>	<b>\$3.0242</b>
LCBO Mark-up	\$2.0423	\$2.0839	\$1.7540
LCBO Wine Levy	\$1.1250	\$1.1250	\$1.1250
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0156	\$0.0000	\$0.0045
<b>Basic Price</b>	<b>\$6.68</b>	<b>\$6.77</b>	<b>\$6.21</b>
Goods and Services Tax	\$0.47	\$0.47	\$0.44
Provincial Retail Sales Tax	\$0.80	\$0.81	\$0.75
<b>Consumer Price</b>	<b>\$7.95</b>	<b>\$8.05</b>	<b>\$7.40</b>

#### Revenue Distribution

Supplier (including freight)	\$2.81	\$2.84	\$2.64
Government of Canada	\$0.85	\$0.88	\$0.82
Government of Ontario	\$4.29	\$4.33	\$3.94

## Beer

Examples as at March 31, 2000  
for a case of 24 x 341 mL bottles  
in Canadian Dollars

	Imported U.S.	Imported Non - U.S.	Domestic
Payment to Supplier	\$7.4700	\$10.1400	\$10.2000
Federal Excise Tax	\$2.2903	\$2.2903	\$2.2903
Federal Import Duty	\$0.0000	\$0.0655	\$0.0000
Freight	\$0.3700	\$2.6300	\$0.4000
<b>Total Landed Cost</b>	<b>\$10.1303</b>	<b>\$15.1258</b>	<b>\$12.8903</b>
LCBO In-store COS	\$4.9595	\$4.9595	\$4.9595
LCBO Out-of-store COS	\$1.3422	\$1.3422	\$0.0000
LCBO Mark-up	\$4.0920	\$4.4998	\$4.0920
LCBO Bottle Levy	\$1.4404	\$1.4404	\$1.4404
LCBO Environment Fee	\$0.0000	\$0.0000	\$0.0000
LCBO Rounding Revenue	\$0.0104	\$0.0270	\$0.0212
<b>Basic Price</b>	<b>\$21.97</b>	<b>\$27.39</b>	<b>\$23.40</b>
Goods and Services Tax	\$1.54	\$1.92	\$1.64
Provincial Retail Sales Tax	\$2.64	\$3.29	\$2.81
Container Deposit	\$2.40	\$2.40	\$2.40
<b>Consumer Price</b>	<b>\$28.55</b>	<b>\$35.00</b>	<b>\$30.25</b>
Supplier (including freight)	\$7.84	\$12.77	\$10.60
Government of Canada	\$3.83	\$4.27	\$3.93
Government of Ontario	\$14.48	\$15.56	\$13.32
Container Deposit	\$2.40	\$2.40	\$2.40

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

## Eleven Year Financial Performance Review

(value in \$000s)

	2000	1999	1998	1997	1996
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### Statement of Earnings

Sales and Other Income	\$2,549,458	\$2,349,832	\$2,160,843	\$2,013,873	\$1,909,804
Cost of Sales	\$1,288,903	\$1,165,849	\$1,064,286	\$988,386	\$919,268
Gross Profit	\$1,260,555	\$1,183,983	\$1,096,557	\$1,025,487	\$990,536
Per Cent	49.44%	50.39%	50.75%	50.92%	51.87%
Operating Expenses	\$414,861	\$374,558	\$351,653	\$324,457	\$323,819
Net Income	\$845,694	\$809,425	\$744,904	\$701,030	\$666,717

### Statement of Cash Flow

Cash Flow from Operations	\$875,289	\$834,465	\$769,507	\$723,197	\$687,663
Change in Working Capital	(\$15,198)	(\$8,651)	(\$29,537)	\$49,819	\$9,659
Cash Used for Investing Activities	(\$54,443)	(\$40,265)	(\$25,524)	(19,424)	(\$26,256)
Cash Used for Provincial Transfers	(\$800,000)	(\$780,000)	(\$745,000)	(\$730,000)	(\$680,000)
Decrease/Increase in Cash During the Year	\$6,555	\$5,549	(\$30,554)	\$23,592	(\$8,934)

### Financial Position

Current Assets	\$308,724	\$275,774	\$230,720	\$256,209	\$239,516
Current Liabilities	\$221,226	\$210,029	\$179,175	\$203,647	\$160,727
Working Capital	\$87,498	\$65,745	\$51,545	\$52,562	\$78,789
Fixed Assets	\$172,124	\$148,183	\$132,958	\$132,037	\$134,780
Total Assets	\$480,848	\$423,957	\$363,678	\$388,246	\$374,296

### Financial Ratios

Profit Margin	33.38%	34.80%	35.03%	35.11%	35.33%
Return on Shareholders' Equity	357.17%	406.31%	403.63%	352.13%	302.76%
Current Ratio	1.40	1.31	1.29	1.26	1.49

### Statistics

Inventory Turnover	5.21	5.38	5.53	5.02	5.07
Number of Permanent Employees	3,074	3,014	2,934	2,828	2,803
Sales per Employee	\$824,206	\$771,623	\$724,866	\$706,079	\$673,273
Number of Stores	602	600	596	595	596
Number of Regular Products Listed	3,496	3,366	3,098	2,960	3,149



1995	1994	1993	1992	1991	1990
<b>Statement of Earnings</b>					
\$1,808,518	\$1,764,731	\$1,786,479	\$1,833,386	\$1,936,710	\$2,006,975
\$858,190	\$832,106	\$841,060	\$851,539	\$967,221	\$1,012,938
\$950,328	\$932,625	\$945,419	\$981,847	\$969,489	\$994,037
52.55%	52.85%	52.92%	53.55%	50.06%	49.53%
\$313,029	\$333,716	\$332,953	\$332,439	\$326,682	\$311,707
\$637,299	\$598,909	\$612,466	\$652,458	\$652,669	\$692,083
<b>Statement of Cash Flow</b>					
\$655,198	\$619,979	\$635,298	\$675,162	\$672,558	\$707,223
\$5,473	(\$15,824)	(\$8,694)	\$6,162	\$48,775	(\$29,481)
(\$26,895)	(\$14,753)	(\$21,075)	(\$25,754)	(\$29,751)	(\$23,784)
(\$630,000)	(\$585,000)	(\$615,000)	(\$675,000)	(\$650,000)	(\$640,000)
\$3,776	\$4,402	(\$9,471)	(\$19,430)	\$41,582	\$13,958
<b>Financial Position</b>					
\$229,541	\$201,204	\$192,955	\$207,155	\$231,212	\$219,752
\$132,159	\$92,813	\$104,789	\$118,212	\$116,677	\$98,024
\$97,382	\$108,391	\$88,166	\$88,943	\$114,535	\$121,728
\$129,470	\$120,474	\$126,790	\$130,564	\$131,161	\$122,322
\$359,011	\$321,678	\$319,745	\$337,719	\$362,373	\$342,074
<b>Financial Ratios</b>					
35.61%	34.24%	34.36%	36.04%	33.96%	34.70%
285.63%	269.90%	281.94%	280.50%	266.53%	314.34%
1.74	2.17	1.84	1.75	1.98	2.24
<b>Statistics</b>					
4.92	5.02	4.70	4.72	4.79	4.88
2,824	2,743	3,100	3,233	3,305	3,484
\$633,656	\$637,678	\$574,998	\$560,185	\$581,445	\$572,401
597	600	611	618	621	623
3,053	2,824	2,737	2,787	2,601	2,655

Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case.



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## PRODUCTS AND PRICING

13,406	Total number of products available through LCBO stores, catalogues and private ordering service in 1999-2000
3,569	Number of new Vintages products offered in stores and through the <i>Classics Catalogue</i> in 1999-2000
64	Number of countries from which the LCBO bought products in 1999-2000
813	Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program in 1999-2000
978	Number of products that carried a "value-add" bonus item in 1999-2000
600	Number of products with bonus AIR MILES Rewards in 1999-2000
81	Percentage of domestic spirit prices made up of federal and provincial taxes, levies and mark-ups
64	Percentage of domestic wine prices made up of federal and provincial taxes, levies and mark-ups
57	Percentage of domestic beer prices made up of federal and provincial taxes, levies and mark-ups

## OUR EMPLOYEES

3,074	Number of permanent full-time LCBO employees
3,158	Number of casual employees working in Retail stores at fiscal year end
115	Number of LCBO product consultants available to offer expert advice to customers
4,650	Number of LCBO Retail staff who have passed the highest level of our three-level Product Knowledge Course to date
988	Number of LCBO Retail staff who received training in 1999-2000 to help prevent service to minors or people who appear intoxicated

5,470	Number of LCBO Retail staff who have received responsible service training to date
108,541	Number of calls handled by LCBO Infoline officers in fiscal 1999-2000
2,860	Number of e-mails handled by LCBO Infoline officers in fiscal 1999-2000

## OUR FUNDRAISING

\$234,000	Amount raised by LCBO employees for the United Way in 1999
1	Ranking of LCBO among government fundraisers for the United Way (per capita)
\$265,495	Amount raised for charity through donation boxes in LCBO in calendar 1999 (Note: This does not include \$99,048, raised by the Royal Canadian Legion Poppy Fund)

## SOCIAL RESPONSIBILITY

913,810	Number of customers challenged for proof of age or sobriety by LCBO staff in 1999-2000
82,613	Number refused service by LCBO employees in 1999-2000
3,123	Number of BYID tamper-resistant identification cards issued by the LCBO during 1999-2000
11,920	Number of BYID cards issued as of March 31, 2000

## QUALITY ASSURANCE

298,784	Number of product tests carried out in 1999-2000 by LCBO's Quality Assurance laboratory
276	Number of products rejected by Quality Assurance in 1999-2000 for health concerns, consumer safety issues and other quality control problems
696	Number of seized products tested for enforcement purposes by Quality Assurance in 1999-2000
0	Number of product recalls issued by Quality Assurance in 1999-2000



For information about LCBO products and services,  
visit us on the Internet at:  
[www.lcbo.com](http://www.lcbo.com) and [www.vintages.com](http://www.vintages.com)















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